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ABSTRACT

One of a series of booklets on world issues, this document summarizes some of the salient aspects of Central America with special attention given to Nicaragua and El Salvador. The booklet identifies the interests, policies, and choices of the major actors in the drama that engulfs the region and, increasingly, much of the world. Chapter one briefly outlines the historical background of Central America characterized as a friction point where European nations and the United States have clashed with each other and with local populations over control of the region and its international transportation routes. Chapter two focuses on Nicaragua and El Salvador as centers of controversy. Recent history, economic involvements, and political and social development are explored. Chapter three presents four possible scenarios for Central America in the years between 1985-1990: (1) Nicaragua isolated; (2) Central America divided; (3) return to the center; and (4) regional war. Three economic strategies for the 1980's are explored: (1) the new export orientation; (2) the continuance of the strategy of the 1970s; and (3) the reduction of dependence. Chapter four investigates Central America's relationship with the rest of the world. Chapter five discusses U.S. policies toward Central America including U.S. interests and U.S. policy options. The "Talking It Over" section offers questions for students and discussion groups. (RSL)

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CENTRAL AMERICA

Current Crisis and Future Prospects

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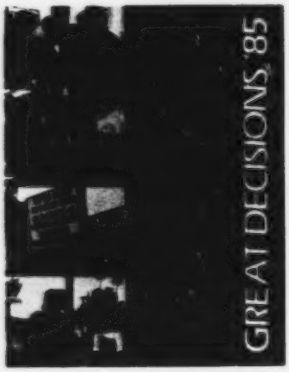

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CENTRAL AMERICA

Current Crisis and Future Prospects

by Jorge I. Domínguez
and Marc Lindenberg

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November/December 1984

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Introduction

Will wars in Central America intensify during the second half of the 1980s, bringing death and destruction to its peoples, and perhaps drawing the United States and others into the conflict? Or will wars subside as Central American governments arrange to work together, despite serious persisting political differences, to usher in greater peace and prosperity?

If the past is a guide to the future, both outcomes are possible. Central America (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica) has seen many wars since its independence in the 1820s; Panama, to the south, has drawn politically closer to Central America. The United States has helped make and unmake the region's governments, and it has intervened militarily in Panama and in Nicaragua in this century. But Central America, with U.S. support, has also known periods of great economic growth and improvements in living standards, most recently in the 1960s.

Central America is the bridge between the two main land masses of the Western Hemisphere and thus a source of concern throughout the Americas. But Central America has also been for centuries a concern for the superpowers of the moment—Spain and Britain in the distant past, with the United States emerging preeminent in this century. The efforts of the United States to maintain a predominant role today, for itself and for the political, economic and social values it upholds, are also close to the heart of the current crisis.

More perhaps than in the past, Central Americans in recent years have been trying to fashion their own history. Revolution in Nicaragua, civil wars in El Salvador and in Guatemala, the consolidation of democratic institutions in Costa Rica, the assertion of national sovereignty by Panama over the former U.S. Canal Zone, and the tentative transition toward civilian rule in Honduras are but some of the dramatic events that have shaken these countries.

To deal with these problems, Central American governments have sought outside help. Insurgents in Central American countries have also looked for external help. Since the early 1960s they have turned most often to Cuba and its friends, but in the 1980s, in Nicaragua's case, the rebels have sought help from the United States. Thus Cuba and the United States now support both some governments and some insurgents in a situation of increasing complexity that has the makings of tragedy.

Central America matters above all for Central Americans, but many others have become persuaded that they should help fashion the future of those peoples. The U.S. government is among those increasingly involved in the affairs of these countries, in part to counter the involvement of its adversaries.

This HEADLINE SERIES is an endeavor to summarize some salient aspects of Central American countries, with special attention to Nicaragua and El Salvador, as well as to identify the interests, policies and choices of the major actors in a drama that engulfs the region and, increasingly, much of the world.

1

The Context for Crisis

Central America has historically served as a friction point where European nations and the United States have clashed with each other and with local populations over control of the region and its international transportation routes. The five Central American countries and Panama, which link Mexico with South America, are a melting pot of cultures and races. Fifty percent of Central America's 24.5 million people are Ladino, a mixture of Spanish and Indian ancestry. More than 20 percent are Indians whose primary language is not Spanish. Finally, there is a small English-speaking black population along the region's Atlantic coast, descendants of slaves brought to work on the plantations or as contract laborers to build the Panama Canal.

Central America is also geographically diverse. Fertile lowlands along the Pacific coast are used for growing export crops. The central highlands, where food crops are raised, and the west coast are the most populated areas. The Atlantic coast is covered with tropical jungles and thinly populated.

With the exception of Panama, where banking and commerce predominate, the region's economies are dependent on export agriculture, notably coffee, cotton, bananas, cattle and sugar.

Although the region's per capita income was above $1,000 in 1981, there are wide disparities among the Central American countries. More than 40 percent of the people earned less than $200 a year in 1980. The poor include small farmers, landless rural laborers, artisans, fishermen, and the urban unemployed. The disparities are not only economic: life expectancy in Costa Rica in 1981 was 73, in Guatemala only 59. That same year infant mortality was more than four times greater in Honduras than it was in Panama.

The Spanish Conquest and the Colonial Period

Since the early days of the Spanish conquest, powerful forces helped shape Central America's history and social structure. The early Spanish colonists were primarily engaged in gold and silver mining and selling slaves, neither of which required large capital investment. But as the Indian population declined, decimated by disease and slavery, more colonists sought a living from the land. They bought large tracts and lived off the *encomienda* ("service and tribute") of the Indians assigned to their land. The Indians produced the basic grains to feed the colony while the hacienda owners grazed sheep and cattle. The encomienda system was cheaper than slavery because the Indians had to support themselves as well as supply labor or tribute.

The social structure which sprang from the colonial system was highly stratified. At the top were Spanish bureaucrats and Spanish colonial landowners. In the middle was a tiny group of Ladinos, frowned upon by the Spaniards because of their mixed blood; they served as merchants and tradesmen. Indians constituted the lower class and supplied the labor.

In the last years of the Spanish Empire—in the early 1800s—economic difficulties strained the region's social fabric, and conflicts multiplied among the Spanish bureaucrats, colonial landowners and Ladinos. By 1800 Europeans constituted no more than 4 percent of the population, while 65 percent was Indian, 31 percent, Ladino. As the Spanish Empire's grip weakened, the region moved toward independence.

A.G. Smith

Independence, Reform and Reaction (1821-80)

Central America (with the exception of Panama, which was a province of Colombia) broke with Spain and became part of Mexico in 1821. In 1823 it became an independent federation. To understand the dynamics of the independence period, it is useful to review the role of two ideologies, liberalism and conservatism, which alternately dominated economic and political life.

The liberals, imbued with the ideals of the North American and French revolutions, controlled the new federation. They shaped a government in which states' rights were somewhat subordinated. Their objectives were to limit the power of the Roman Catholic Church, establish free trade, abolish slavery and integrate the Indians into what they considered the mainstream of Central American culture. They championed public education, judicial reform, economic innovation and investment in infrastructure. To carry out their programs they relied on the support of the emergent middle- and aspiring upper-class Ladinos.

The first years of the Central American Federation coincided

with the expansion of British economic interests in the area. The British controlled and developed Belize as the major transshipment point for Central American goods. (Belize, formerly British Honduras, is excluded from this study since it is more oriented to the Caribbean region and its principal language is English.) The reduction of duties on Central American products and the resurgence of the indigo market to supply the booming English textile industry pulled Central America firmly into the English economic sphere.

Rapid change and the higher taxes required for progressive programs created enemies for the liberals not only among the older Spanish-oriented upper class but also among peasants and Indians. In the late 1830s José Rafael Carrera led an armed peasant rebellion in Guatemala that spread to the rest of Central America. The rebellion culminated in the destruction of the Central American Federation in 1838.

In the period that followed, the conservatives held sway in Central America. They rolled back the liberal reforms, reestablished more-traditional Spanish institutions, restored the Church to its former preeminence, spoke out against foreign dominance, and pursued a more subsistence-oriented economic policy. Conservative leaders with a military power base paved the way for a series of caudillos (military dictators) like Guatemala's Carrera.

During the period of conservative dominance in Central America, coffee became a major export crop, first in Costa Rica in the 1840s, and subsequently elsewhere. And it was coffee that contributed to the conservatives' downfall because they failed to facilitate its production. They also failed to deal effectively with high unemployment and rapid urban development. The liberals returned to power and held it for the next 50 years.

Modernization and U.S. Hegemony (1881–1930)

To meet the growing European and U.S. demand for coffee, Central American governments gave planters subsidies, tax exemptions, technical assistance and ready access to foreign loans. These policies were part and parcel of the new liberal program, predicated on faith in science and technology. The new policies

not only boosted coffee production but also encouraged the development of the sugar and banana industries and led to the formation of two powerful U.S. producers, the United Fruit Company and the Standard Fruit Company, in the last decade of the 19th century.

The growing export trade and the high costs of transportation between the East and West coasts renewed demand for development of an interoceanic canal. The U.S. Congress studied both Nicaragua and Panama as possible sites. When Nicaraguan nationalism made the Panama route look more promising, the United States encouraged Panama to break away from Colombia and form a separate republic. The United States promptly recognized the new government and obtained the right, through the Hay-Herrán Treaty of 1903, to dig a canal and control its operation.

The growth of U.S. commercial and transportation interests was accompanied by the growth of an increasingly assertive, interventionist policy—in the Dominican Republic, Haiti and Cuba. In 1909 the United States sent troops to Nicaragua when the government could not repay its foreign debt. Under the Bryan-Chamorro Treaty of 1916, the United States placed Nicaragua under a protectorate. U.S. Marines remained in Nicaragua from 1912 through 1925 and returned in 1926. Augusto César Sandino, guerrilla hero of the present Sandinista movement, led a struggle against the U.S. occupation. He was supported by José Farabundo Martí, hero of the current Salvadoran revolutionary movement, who fought alongside him. U.S. forces withdrew in 1932, but U.S. commercial and indirect military control continued.

The Depression, World War and its Aftermath (1931-59)

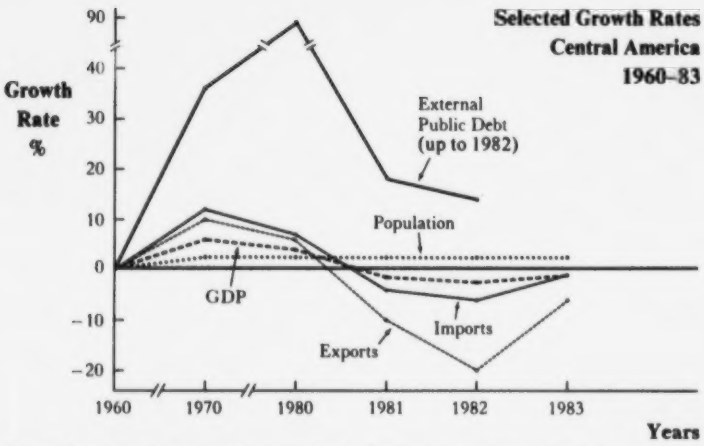
With the onset of the Great Depression of the 1930s, the bottom dropped out of coffee, sugar and banana prices, and the Central American economies—by now heavily dependent on the international economy—suffered. Most liberals were turned out of office by the conservatives. As social instability mounted, with peasant insurrections in El Salvador and guerrilla activity in

Nicaragua, Central American governments resorted to repression. In El Salvador, General Maximiliano Hernández Martínez's troops reportedly killed 30,000 peasants in a revolt in January 1932. In Nicaragua in 1934, government officials in collusion with the National Guard tricked Sandino into attending a dinner and then assassinated him.

When World War II broke out, the economic development of Central America became secondary. But after the war, new export crops were developed. In addition to reviving coffee, banana and sugar cultivation, Central America began experimenting with cotton production for the U.S. and Japanese markets and increased beef exports. The region enjoyed a modest level of economic growth.

Immediately after World War II, the United States welcomed the democratizing changes under way in Central America; it even put pressure on Nicaragua's dictator Anastasio Somoza García. But U.S. policy shifted again with the beginning of the cold war. By the early 1950s, the United States supported the region's right-wing authoritarian regimes. It considered them a force for stability. When the politics of any Central American country moved to the left of center, the United States intervened. For example, through covert action by the Central Intelligence Agency (CIA), in 1954 the United States supported armed actions to help overthrow the regime of Jacobo Arbenz Guzmán in Guatemala, which it believed was supported by the Soviet Union and which had purchased weapons from Czechoslovakia. The United States continued to provide resources to the Somoza regime in Nicaragua. The one exception was Costa Rica. When violence erupted in Costa Rica in 1948 over disputed election returns, the United States remained neutral. In subsequent years Costa Rica, in contrast to the rest of Central America, maintained its democratic traditions, with U.S. support. It abolished the army, expropriated the banks, and developed strong health and social security systems.

The Cuban revolution of 1959 prompted the United States to question and reexamine its Latin American policy. Out of the questioning emerged the development strategy that helped create



Source: Inter-American Development Bank, *Progreso Económico y Social en América Latina 1984* (Washington D.C., IDB, 1985).

a new period of economic growth in Central America—and the seeds of the current crisis.

Development Strategy: 1960s and 1970s

Central America's economic growth strategy in the 1960s and 1970s called for investing in infrastructure and in social sectors such as health, nutrition and education; increasing and diversifying agricultural exports; developing import-substituting industries; and creating the Central American Common Market (CACM). In terms of economic growth, the strategy was highly successful: gross domestic product (GDP) grew at an average rate of 6 percent a year between 1965 and 1977. However, the policies were not firmly anchored. Little progress was made in diversifying agricultural production: Central America in the 1980s has the same five major agricultural export crops it had in 1960. Most of the growth came from expanding exports of existing crops and some improvement in productivity, particularly on medium-size and large farms. Although industry expanded and interregional trade increased as a result of the CACM, established by a treaty

effective in 1961, in general the import-substitution policy was unsuccessful. Furthermore, the CACM arrangements were never fully implemented. When a country felt the need to protect a national advantage, it did not hesitate to break an interregional trade agreement. Finally, the benefits of growth were unequally shared. Central America's poor remained largely outside the development process during the last two decades.

The Current Crisis

Changes in the international economy in the late 1970s plunged Central America into a severe crisis: economic growth faltered, trade deficits grew and foreign indebtedness climbed sharply. Beginning in 1979 the population grew at a faster rate than did the economy. By 1983, the economic pie had not only ceased to grow but was shrinking while the population continued to grow at the rate of 3 percent. As for trade, the rising price of petroleum and other imports had increased the costs of production at a time when the prices Central America's exports commanded plummeted—victims of worldwide overproduction of coffee, sugar and other commodities and a stagnant international economy. In 1980 the trade deficit (the difference between the value of imports and exports) was almost $1 billion; in 1982, it was close to $2 billion. This shift in the terms of trade against Central American exports led to economic stagnation and widespread concern about the future viability of the region's economies.

To finance its trade deficits, Central America began to borrow funds at an astronomical pace. In 1981, for example, foreign debt increased more than 30 percent while GDP growth was less than 1 percent. In two years, 1980–81, Costa Rica alone doubled its total public indebtedness.

As the economic engine stalled, the region's social peace came to a halt. Relations between Church, labor, the military, private business and government began to break down. Each group blamed the others for the crisis.

The economic and social turmoil produced political cleavages as well. Guatemala, El Salvador and Nicaragua have been wracked by internal disorder and revolution. Official sources cite

Central America:
Social and Economic Statistics

	GNP per capita 1980 ($U.S.)	GNP per capita 1983 ($U.S.)	Infant Mortality[1] 1984	Literacy 1982 (%)	Life Expectancy 1982	Debt Service Payments as a percentage of exports 1982
Costa Rica	1,765	1,466	19	90	73 yrs.	22
El Salvador	801	632	86	71	53 yrs.	9
Guatemala	1,413	1,235	64	56	59 yrs.	6
Honduras	746	665	87	59	59 yrs.	17
Nicaragua	1,062	1,088	75	88	62 yrs.	35
Panama	2,089	2,159	20	88	71 yrs.	60

(1) Deaths per 1,000 live births
Source: Inter-American Development Bank, *Progreso Económico y Social en América Latina 1984*. (Washington D.C., IDB, 1985)

more than 10,000 deaths in Nicaragua alone. In Guatemala and El Salvador, newspaper sources in 1981-82 reported 50 to 100 deaths a week due to armed struggle, assassination or civil disturbance. The open wars in Nicaragua and El Salvador are affecting the entire region.

Central America, moreover, has become an arena for big-power politics, with the Soviet Union, Cuba and other Communist-bloc countries supporting the Nicaraguan, Salvadoran and Guatemalan revolutions. The United States has supported the governments of Guatemala and El Salvador, as well as Nicaragua's anti-Sandinista rebels. Mexico and Venezuela have played pivotal roles as intermediaries and peacemakers in this international chess game.

This is the situation in which Central America finds itself in 1985—a situation not without precedent in the region's history. Periods of political instability have generally been associated with downturns in the international economy and with periods of transition occurring when one dominant foreign power—first Spain, then Britain—has been replaced by another. There were

insurrections in El Salvador in 1932 and instability in Nicaragua from 1929 to 1934. Nor are regional wars the exception. There were conflicts in 1906 between Guatemala and El Salvador and between Nicaragua and Honduras; border skirmishes between Costa Rica and Panama and between Costa Rica and Nicaragua in the 1950s and early 1960s; and a war touched off by a soccer match between Honduras and El Salvador in 1969.

International economic recovery, internal political restructuring, foreign intervention and diplomatic negotiation have all often contributed to the resolution of conflicts in Central America. Ideological deviation of one country from the others has not usually been the norm. More frequently new ideas and ideologies have spread evenly throughout the region. Reaction to new ideologies has also been uniform.

What will be the impact of this new round of conflicts on the Central American nations? What role will outside powers play, and what options does the United States have?

2

Nicaragua and El Salvador: Centers of Controversy

Since 1978 Nicaragua and El Salvador have been the focal points of the violence and political polarization that have gripped Central America. Many of the forces that contributed to the instability and upheaval can be traced to earlier periods of the region's history. But there were additional contributing factors.

Nicaragua

In Nicaragua, the centralization of power in the hands of the Somoza family had eliminated most channels for peaceful change and eroded the regime's political base. A broad revolutionary coalition had emerged by 1978 which included members of all social classes. This revolutionary coalition was held together in part by shared economic grievances. Although the country achieved a high rate of economic growth in the 1970s, most of the benefits went to the Somozas and their business associates. Despite a reconstruction boom following the 1972 earthquake in Managua, the capital city, real wages for workers declined and the non-Somoza business community participated little in

Nicaragua's economic opportunities or in any planning for the future.

The international community supported change in Nicaragua and this contributed to the revolutionary climate. The opponents of Anastasio Somoza Debayle, son of the founder of the Somoza political dynasty, including businessmen not connected with his family, political parties and the directorate of the Sandinista National Liberation Front (FSLN), had supporters in Costa Rica, Panama, Venezuela, Mexico and Cuba. Some FSLN leaders and cadres were trained in Cuba, and rebels operated from neighboring countries with their governments' tacit agreement. Finally, the United States, supportive of the Somozas in the past, did an about-face during President Jimmy Carter's Administration because of the new policy emphasis on promoting human rights. Although the United States did not offer any direct assistance to the broad-based Nicaraguan revolution, it indicated it might work with the movement if it came to power.

After the loss of 10,000 lives in 18 months of intense fighting, first in provincial towns like Masaya, Matagalpa and Estelí, and finally in Managua, General Somoza was forced into exile and the Government of National Reconstruction took office in July 1979. The new government, a coalition of the groups that participated in the revolution, was led by a five-member junta, including two non-Sandinistas. In addition, a 33-member Council of State was formed. Government ministries were divided among different political groups, but the Marxist-oriented FSLN controlled the military and the police.

The government's initial goals were to reactivate the economy and introduce a mixed system of ownership in which 60 percent of the gross national product (GNP) would remain in private hands, the balance in a dynamic state sector. Overseen by a strong planning ministry, the state sector would own and operate the banking system and the one third of the economy that had been owned or controlled by General Somoza. The government would also control internal and external trade. The government called for national unity and promised to hold elections within months.

Keeping the Economy Moving

The government's economic strategy called for reducing Nicaragua's dependence on foreign countries. While Nicaragua would need to maintain its traditional agricultural exports in order to earn foreign exchange to purchase raw materials and finished products, the government believed the country should try to become self-sufficient in food production and develop import-substituting industries as well as simplify production methods and concentrate on a few basic products for mass consumption. Consumption of luxury goods was discouraged through import restrictions.

Under the new strategy, the state was to play a predominant role in production and in the allocation of resources. Comandante Jaime Wheelock Román, the Nicaraguan minister of agriculture, defined the respective roles of the state and private sectors and the planning process as it had evolved in revolutionary Nicaragua by 1981 as follows:

> We must examine whether the bourgeoisie can...limit themselves as a class...to use their means of production to live, but not as an instrument of power....State property and that of cooperatives should be dominant, coexisting with middle-size and small private-sector production and even some large private producers....

A conflicting view of the role of the private sector in the Nicaraguan economy was given by a representative of the Union of Private Agricultural Producers of Nicaragua:

> Businessmen have ceased to be businessmen. They have been converted into administrators and have had their basic range of key decisions restricted. They can no longer say either to whom they will sell their products or how. There is no free contracting of labor. The purchase of imported agricultural inputs is also controlled by the government, as well as the use of profits.

By 1983 opposition to the government had grown and, as the military situation deteriorated, the government altered its plans, giving priority to national defense and the production of basic necessities. In 1984 the economy was placed on a war footing.

CENTRAL AMERICA

Real Growth of GDP
(percent)

	1973	1977	1979	1981	1983
Costa Rica	7.6	8.9	4.9	−2.3	0.8
El Salvador	5.6	6.1	−1.7	−9.0	0.0
Guatemala	6.8	7.8	4.4	0.7	−2.5
Honduras	2.5	8.5	6.7	0.5	−1.4
Nicaragua	2.1	6.3	−24.3	5.2	4.0
Panama	5.3	1.0	4.5	4.2	0.2

Source: Inter-American Development Bank, *Progreso Económico y Social en América Latina 1984.* (Washington D.C., IDB, 1985)

Economic Results

The results of Nicaragua's postrevolutionary economic policies must be viewed in the context of the worldwide economic depression and the decline in the standard of living in most Central American countries by the early 1980s. Nicaragua's GNP (in constant dollars) in 1984 did not recover the level attained before the revolution, but the state of the economy—including 20 percent unemployment—was similar to that in most of Central America. However, Nicaragua's inflation rate in 1984, projected at over 20 percent, was higher than that of its neighbors.

The only key sector in Nicaragua which demonstrated growth was government: by 1982 government spending had reached 1978 levels (in constant dollars). The production of basic grains also increased: in order to achieve food self-sufficiency, the government expanded acreage set aside for grains by 4.4 percent, and increased production by 22 percent. On the other hand, in the same period production of export crops declined substantially due to a deliberate drop in cotton production, organizational problems

in the state sector, low confidence levels in the private sector, poor climatic conditions and labor shortages.

By 1983 the state-owned sector of the economy, including government services, amounted to more than 50 percent of GNP—substantially more than the initial target of 33 percent. In addition, the budget deficit climbed from the equivalent of 10 percent of GNP in 1978 to 15 percent in 1983, the highest in Central America. Not having adequate foreign resources to cover the deficit, the government rapidly expanded the money supply. Although the government's official exchange rate was 10 córdobas to one U.S. dollar, the black-market rate climbed to 500 córdobas to the dollar by January 1985 due to lack of foreign exchange and other economic pressures.

Nicaragua in the mid-1980s faces serious economic problems. A combination of war damage, the world recession, inconsistent government policies, lack of private-sector confidence, and inefficiency and low productivity in the public sector have produced economic stagnation, inflation and shortages of goods, services and foreign exchange. Perhaps the most serious problem of all is the growing dissatisfaction of the population due to the extreme scarcity of goods.

Social Investment

The government's original plans placed great emphasis on improving living standards and satisfying basic needs. This was to be done by controlling consumer prices for basic goods and increasing expenditures on education and health in order to improve services and reach more people. The most noticeable progress has been made in the area of health: its share of the government budget has more than doubled, from 4 percent in 1978 to 10 percent in 1983. There has been special emphasis on preventive medicine, including vaccination campaigns, and the expansion of services in urban clinics and in the provinces. A national campaign to reduce illiteracy was launched in 1980. The government has increased the number of teachers and schools at the preschool and primary levels.

Obtaining Foreign Resources

To deal with trade deficits and high interest and amortization payments on foreign debt, each Central American country in recent years has had to find between $400 million and $600 million a year in new grants, loans and lines of credit. Without that help Central American countries would be unable to meet their obligations or purchase necessities for industrial and agricultural development.

Until 1983, Nicaragua successfully marshaled foreign resources. (See Table, p. 29.) It obtained more than $656 million in 1981 and diversified its sources of funding. To make up for the cutbacks in assistance from the United States (less than 1 percent of the total received in 1983, compared with 19 percent in 1981) and multilateral sources (14 percent in 1983 compared with 46 percent in 1981), Nicaragua obtained funding from socialist countries (37 percent, up from 10 percent) and from Western Europe, Mexico and Venezuela (47 percent, up from 25 percent). The new resources, however, are mostly loans, not donations, and they are tied to specific projects and cannot be used to service debt, which rose to over one third the value of Nicaragua's exports in 1982. Nor can aid tied to projects be diverted to meet urgent needs in agriculture or industry. Furthermore, Nicaragua's bureaucracy has not had the time to comply with all of the procedures required to take advantage of all the purchases authorized under the lines of credit.

In 1985 Nicaragua will need more than $500 million in foreign resources. In 1984 nonsocialist bilateral and multilateral sources cut their loans and grants from $306 million to $260 million. Should nonsocialist donors maintain only these amounts in 1985, the socialist bloc would have to provide at least $250 million (almost $71 million more than in 1983). In the absence of such resource inflows, Nicaragua will have serious problems repaying its foreign creditors.

The FSLN Consolidates Power

From 1979 to 1983, the FSLN consolidated its control of Nicaraguan politics, and today it is unchallenged except by the groups engaged in armed struggle against the regime. Immedi-

ately after the revolution, the FSLN took over the key ministries—Defense and Interior (the coercive apparatus), Education and Culture (the ideological apparatus), Foreign Affairs (the means to project Nicaragua's image to the international community), and Agriculture and Agrarian Reform (the key economic apparatus). The Sandinistas diversified the country's suppliers and markets. They cut the competitive edge of the non-Somoza economic interests when they nationalized the banks and the Somoza enterprises. They formed a mass base for the FSLN by establishing neighborhood organizations, women's organizations, youth groups and unions in urban and rural areas.

Gradually many non-FSLN members of the government left the country. In 1980 the two non-Sandinista members of the junta, Violeta Barrios de Chamorro and Alfonso Robelo Callejas, resigned, and two men who had served as Central Bank presidents since 1979 went into exile. The FSLN dominated both the junta and the Council of State, which was expanded from 33 to 55 members. As non-FSLN members resigned and access to decisionmaking became more limited, non-FSLN organizations withdrew their support from the government and fought it both legally and with arms.

In November 1984, elections were held in Nicaragua. FSLN presidential candidate Daniel Ortega Saavedra and vice-presidential candidate Sergio Ramírez Mercado won 67 percent of the valid votes cast, and the FSLN took 61 of the 96 seats in the new National Assembly. Sandinista proponents and some international observers called the election results a fair demonstration of Sandinista popularity and lauded the handling of the election. Opponents complained that the FSLN unfairly had greater exposure in the media and that the people were afraid to vote against them.

Containing Violence

Internal violence began to spread in 1981 and by the end of 1983 at least 10,000 counterrevolutionaries, known as contras, though they prefer to be called freedom fighters, fought in the north under the banner of an umbrella organization, the Nicaraguan Democratic Front (FDN). In the south, about 2,000 contras

POLITICAL MAP*
NICARAGUA AFTER THE DOWNFALL OF SOMOZA: SEPTEMBER 1979

EXTERNAL ACTORS		• CUBA • U.S.S.R.	• SPAIN • MEXICO • VENEZUELA		• GUATEMALA • HONDURAS • U.S. • INTERNATIONAL DONORS		
KEY SECTORS	VIOLENT OPPOSITION	LEGAL OPPOSITION	GOVERNMENT AND SUPPORTING GROUPS			LEGAL OPPOSITION	VIOLENT OPPOSITION
REGIME			JUNTA GOVERNMENT OF NATIONAL RECONSTRUCTION • ORTEGA	• RAMIREZ • HASSAN	• ROBELO • CHAMORRO		
NATIONAL POLITICAL PARTIES			• SANDINISTA (FSLN): PROLETARIAN FACTION GPP FACTION TERCERISTA FACTION	• PATRIOTIC FRONT (FOUR SMALL PARTIES)	• BROAD OPPOSITION FRONT (TWO PARTIES SUCH AS MDN)	• CONSERVATIVE PARTY • FOUR OTHER PARTIES	• EX-NATIONAL GUARD
NATIONAL INTEREST GROUPS		• WORKERS FRONT	• MILITARY (EPS) • NEIGHBORHOOD ORGANIZATIONS (CDS) • TRADE UNIONS (CST-ATC) • WOMEN'S ORGANIZATIONS (AMLAE) • MEDIA (BARRICADA)		• CHURCH • TRADE UNIONS (CCT—CTN) • PRIVATE SECTOR ASSOCIATIONS • PROFESSIONAL ASSOCIATIONS • MEDIA (LA PRENSA)		

(*) Groups are located in relation to their degree of support of the government. Groups to the left of the government want a larger public sector. Those to the right want a larger private sector.

POLITICAL MAP*
NICARAGUA: MAY 1984

KEY SECTORS	VIOLENT OPPOSITION	LEGAL OPPOSITION	GOVERNMENT AND SUPPORTING GROUPS	LEGAL OPPOSITION	VIOLENT OPPOSITION
EXTERNAL ACTORS			• CUBA • U.S.S.R. • LIBYA • INTERNATIONAL SOCIALIST MOVEMENT • MEXICO • VENEZUELA • PANAMA	• COSTA RICA • GUATEMALA • HONDURAS • EL SALVADOR	• U.S.
REGIME			JUNTA GOVERNMENT OF NATIONAL RECONSTRUCTION • ORTEGA • RAMIREZ • CORDOBA R. JUDICIARY COUNCIL OF STATE		• ROBELO • CHAMORRO • EDEN PASTORA • CALERO
NATIONAL POLITICAL PARTIES			PATRIOTIC FRONT • SANDINISTAS: PROLETARIAN FACTION, GPP FACTION, TERCERISTA FACTION • LIBERAL INDEPENDENT PARTY (PLI) • POPULAR SOCIAL CHRISTIAN PARTY (PPSC) • SOCIALIST (PSN)	• OTHER PARTIES	CONTRA • ARDE • FDN • MDN
NATIONAL INTEREST GROUPS			LIBERATION CHURCH • MILITARY • NEIGHBORHOOD ORGANIZ. (CDS) • UNIONS (CST/ATC) • WOMEN'S ORGANIZ. (AMLAE) • MEDIA (BARRICADA)	• CATHOLIC CHURCH • PRIVATE SECTOR ASSOCIATIONS • UNIONS (CTG/CTN) • NON-SANDINISTA PROFESS. ASSOC.	

(*) Indicates the withdrawal of various sectors from the 1979 coalition. In a political map, groups are located in relation to their degree of support of the government. Groups to the left of the government want a larger public sector. Those to the right want a larger private sector.

fought as the Democratic Revolutionary Alliance (ARDE), led by former Sandinista commander and revolutionary war hero Edén Pastora. The FDN and, to a lesser extent, ARDE received active support and resources from the CIA. In 1981 the violence was limited to areas along the borders of Honduras and Costa Rica, but the following year the government of Nicaragua reported 58 violations of its airspace, 37 attacks on frontier posts, 4 acts of sabotage, 37 Sandinista soldiers and 144 contras killed, and it declared a state of emergency.

In 1983 counterrevolutionary activity increased substantially along the frontiers, and ESSO oil tanks and loading facilities were bombed. The government made military service compulsory and mobilized units of the popular militia. The economy was put on a war footing in 1984, and attacks by the contras spread. For half a day contras held the provincial town of Ocotal.

As of 1985 the government has managed to contain the violence, and the counterrevolution does not pose a serious threat. However, the current costs of containment are high and rising. As draft-age sons are trained and sent to fight, mothers have organized protests. Investment and economic growth have been curtailed, and losses due to war damage to economic installations have mounted.

El Salvador

El Salvador's political history for the last half century has been characterized by periods of uprising and repression interspersed with periods of relative stability when national elections were possible. In the early 1930s, General Maximiliano Hernández Martínez put down a massive peasant uprising and thereafter ruled for more than 13 years. After the overthrow of his dictatorship and a period of turmoil, a new constitution was written in 1950. Two presidents were subsequently elected from the military, one in 1950 and another in 1956. The opposition denounced both elections as fraudulent.

The decade beginning in 1961 was one of relative calm conducive to the development of the democratic process. However, no candidate received a majority in the first round of the 1972

national elections. The National Assembly then elected the candidate of the governing National Conciliation party (PCN), Colonel Arturo Armando Molina, president. The opposition candidate, José Napoleón Duarte, and his running mate for the vice-presidency, Guillermo Manuel Ungo Revelo, accused the PCN of fraud. Duarte and Ungo left the country after participating in an unsuccessful coup d'état.

During the Molina government (1972-77), political participation declined and terrorism increased. There were massive demonstrations in favor of political, economic and social reforms. President Molina attempted to institute land reform but was blocked in 1976 by landowners. As the level of violence grew, the government was accused of frequent violations of human rights. The crisis came to a head under General Carlos Humberto Romero Mena, the PCN candidate elected in 1977 in what the opposition claimed were rigged elections.

President Romero was overthrown in October 1979 and replaced by a military-civilian junta. The coup was the culmination of pressures that had been building over the years—frustration caused by the effects of the worldwide recession, the decline in workers' and peasants' living standards, uncertainty about El Salvador's economic future, limited opportunities for participation in the political process (especially between 1972 and 1979), the widespread perception that wealth and power were concentrated in the hands of a small elite, and the concerns of some and the hopes of others about the impact of Nicaragua's revolutionary victory three months earlier on El Salvador.

After such a long period when political action was severely restricted, the first junta's brief tenure of office (October 1979 to January 1980) was marked by intense mobilization of revolutionary, reformist and antireformist political groups. The dialogue over the future of El Salvador broke down, and confrontations among the groups led to violence, factory seizures, strikes and civil disorder.

When the civilian members of the junta resigned over disagreements about the nature and pace of economic and social reforms, the junta collapsed and was replaced by a second revolutionary

junta—an alliance between the Christian Democratic party and the military. With Duarte as president, the junta prepared the transition to a democratically elected government. In 1982 a Constituent Assembly was elected and a provisional president chosen.

The second junta set as its objectives implementing reforms which might alleviate the causes of violence in El Salvador, providing military control and stability, and preparing the ground for an elected government. In 1980-81, it set in motion a land reform program and it took over foreign trade and the banking sector. The reforms came under attack from groups at both ends of the political spectrum.

Although many observers trace the origins of El Salvador's leftist guerrilla movements to the 1970s, the country has a tradition of peasant uprisings which even predate that of 1932. From the 1930s to the 1970s, the Salvadoran Communist party (PCS) continued to function. In the early 1970s, as a result of the efforts of Salvador Cayetano Carpio, leader of the Communist party, the first of five new politico-military organizations was formed, the Popular Forces of Liberation (FPL). Other groups committed to armed struggle followed. The most significant is the People's Revolutionary Army (ERP), led by Joaquín Villalobos. The other groups are the Armed Forces of National Resistance (FARN), the Armed Forces of Liberation (FAL), which is part of the Communist party, and the Revolutionary Party of Central American Workers (PRTC). These politico-military groups developed their own mass organizations and armed forces.

Heartened by the Sandinista victory and frustrated by the slow pace and what they considered the inadequacy of the reforms, the five guerrilla factions united in the early 1980s under the umbrella of the Farabundo Martí Front for National Liberation (FMLN). They also created a political coalition, the Democratic Revolutionary Front (FDR), often associated with Guillermo Ungo. The FMLN reportedly has more than 10,000 members, and by 1982 controlled more than 20 percent of the countryside.

At the same time that the leftist guerrilla movements were mobilizing, some landowners, industrialists, bankers, commercial

POLITICAL MAP:* EL SALVADOR 1982–84
GOVERNMENT OF NATIONAL UNITY

EXTERNAL ACTORS	• NICARAGUA • CUBA • U.S.S.R. • PLO	• MEXICO • VENEZUELA • FRANCE • SOCIALIST INTERNATIONAL • CHRISTIAN DEMOCRATS	• U.S. • AID • DONORS	• GUATEMALA • HONDURAS	
KEY SECTORS	VIOLENT OPPOSITION	LEGAL OPPOSITION	GOVERNMENT AND SUPPORTING GROUPS	LEGAL OPPOSITION	VIOLENT OPPOSITION
REGIME			• TRANSITION GOVERNMENT • PRESIDENT MAGAÑA		
POLITICAL PARTIES		• CHRISTIAN DEMOCRATIC (PDC) • AD		• PCN • PAISA • PPS • ARENA	
NATIONAL INTEREST GROUPS	• FARABUNDO MARTI LIBERATION FRONT (FMLN) • FRONT FOR DEMOCRATIC REVOLUTION (FDR)	• PART OF THE CATHOLIC CHURCH • TEACHERS • MEDIA	• MAJORITY OF THE CATHOLIC CHURCH • MILITARY • MINISTRIES	• PRIVATE SECTOR ASSOCIATIONS • MEDIA	• DEATH SQUADS

(*) Groups are located in relation to their degree of support of the government. Groups to the left of the government want a larger public sector. Those to the right want a larger private sector.

leaders and military officers were venting their frustrations with the government by organizing death squads. The latter made it difficult for the junta to govern effectively, and the country suffered extensive economic sabotage, insurgency and political assassinations, including that of the popular archbishop of San Salvador, Oscar Arnulfo Romero.

In spite of the violence, elections for a Constituent Assembly were held in March 1982. The Christian Democratic party gained 40 percent of the votes, and three parties to the right of center won 56 percent. Dr. Alvaro Magaña Borja, an independent, was named provisional president and Major Roberto D'Aubuisson of the Nationalist Republican Alliance (ARENA), the most right-wing party, was elected president of the assembly. Reforms continued to be implemented, although the pace of land redistribution slowed considerably.

A new constitution was drafted in 1983-84, and the basic rules for political participation were laid down. The level of violence remained high throughout this period, and confrontations with the guerrillas were frequent. In March and May 1984, in two-stage elections, Duarte was elected president with 54 percent of the vote; his opponent D'Aubuisson received 46 percent. The Constituent Assembly continued as a legislature, with the Christian Democratic party controlling 40 percent of the seats.

Economic Strategy

The economic strategy followed by the second junta and the transition government was an outgrowth of a 1980 pact between the Christian Democrats and the military. That strategy bore a paradoxical resemblance to the strategy then being followed by Nicaragua. It called for restructuring key elements of the economy to change the distribution of resources and income and give the state a more direct role. The Salvadoran transition government did not create new means of production. Rather, it placed part of the banking system and export trade under state control, and it changed the relationship between small-, medium- and large-scale agricultural producers. Land reform was to be implemented in three phases.

NICARAGUA
International Loans and Donations
(in millions of $U.S.)

	1981	1983	1984*
I. LOANS			
MULTILATERAL	$302	$ 66	$ 40
BILATERAL			
—SOCIALIST	48	146	Not available
—NON-SOCIALIST	131	204	166
—U.S. AND CANADA	123	—	13
TOTAL LOANS	$604	$416	$219
II. DONATIONS			
—SOCIALIST	$ 16	$ 33	Not available
—NON-SOCIALIST	32	27	33
—INT'L. ORG.	4	10	8
TOTAL DONATIONS	$ 52	$ 70	$ 41
TOTAL (I + II)	$656	$486	$260

(*)Programmed disbursements
Prepared by INCAE

The 1980 pact between the Christian Democrats and the military also called for a redefinition of worker-owner relations and for increased investment in health, education and housing. It called for a dialogue among all sectors of the population, the establishment of new rules governing the private sector, and respect for pluralism. It called on the army to support the new reforms and for respect for individual and collective rights.

Economic Performance

Because of the global economic depression and the tensions in the region, it is difficult to establish a clear relationship between El Salvador's economic strategy and the results. As in Nicaragua, El Salvador's economy in the period 1979-84 did not grow; it declined (by 10 percent in 1980, 9 percent in 1981, 0 percent in 1983 and an estimated 1 percent in 1984). As in Nicaragua, the GNP in constant dollars in 1985 is expected to fall to the 1973 level. Per capita income during this period declined sharply, while inflation was the second highest in Central America after

Nicaragua—an estimated 15 to 18 percent in 1984. Unemployment remained in the 15 to 20 percent range.

Violence has hurt exports. There were substantial drops in cotton area planted (down 61 percent) and harvested (down 67 percent) in the last eight years. Since cotton has been one of El Salvador's most important foreign-exchange earners, the impact has been serious. El Salvador's cotton-producing regions have been among the areas of greatest military conflict. Sugar production also fell. Only coffee production exceeded prewar levels. (The production of basic grains for domestic consumption also increased.)

The decline in agricultural production is not entirely the result of civil conflict. It has also been attributed to uncertainty created by land reform and its effect on private-sector motivation. According to some sources, the cooperatives have had management problems and their productivity levels have not been high; there have been problems with administering the reform, acquiring titles and compensating owners of expropriated land; and 60 percent of the rural population—the landless laborers—have not benefited at all. Those who believe that the reforms have been successful note that large numbers of titles have been granted, that 786,005 acres have been expropriated and redistributed, and 54 new cooperatives formed.

Few special funds have been allocated for health, education and social services, and no extensive new social programs have been undertaken.

Mobilizing Foreign Resources

El Salvador needed about $400 million in 1984 to cover its trade deficit and service its foreign debt. The likelihood of its filling this gap in 1985 is good. El Salvador's debt-service charge as a percentage of exports has been one of the lowest in Latin America—7 to 9 percent. Its exports for 1984 were valued at about $700 million (almost double the amount projected by Nicaragua). When economic factors are weighed together with El Salvador's status as a major U.S. aid recipient in the region, its prospects for filling the resource gap in coming years appear

favorable. In 1983 the U.S. government supplied 39 percent of El Salvador's external financing, which totaled $462 million; multilateral sources, 12 percent; U.S. commercial banks and other sources, 49 percent. (In 1982 the United States supplied 38 percent of the $458 million total; multilateral sources, 18 percent; other sources, 44 percent.) Only the gross violation of human rights might stop the aid flow.

El Salvador's problem is not whether the government can obtain foreign resources but whether a viable economic and political strategy can be forged to get the economy moving, to reduce violence and increase the government's legitimacy in the eyes of both Salvadorans and the international community.

Managing Domestic Violence

Although the war zones were smaller in 1984 than in 1982, some observers question whether the Salvadoran military has the ability, training or the motivation to end the war. There is fighting in 20 percent of the territory between the 10,000 or more guerrillas and the 30,000-man army. The National Bipartisan Commission on Central America, headed by former Secretary of State Henry A. Kissinger, estimated the war's cost to the economy at $600 million between 1978 and 1983; more than 240 enterprises were forced to close.

Political Stability

Domestic political support for the transition government (1982-84) was fragile. The parties that supported the government were at loggerheads with each other, especially the Christian Democrats and the right-wing ARENA. In contrast, the groups on the left that opposed the government showed a high degree of cohesion. Possibly the government's greatest support in this period came from abroad.

Duarte's victory in the 1984 presidential elections and the new constitution may provide some basis for future stability. Much will depend on whether the political parties which participated in the elections continue to abide by the constitution. The new government's success in garnering support will also depend on the

implementation, pace and character of the land reform package and on economic recovery.

The government's ability to stay the course will depend in large measure on the military. If the military proves unwilling or unable to control the guerrillas, or if it commits abuses or reduces its support, the government will be in trouble. Much will also depend on whether the government can make inroads among the supporters of the parties on the left and the guerrillas. At some point the government and the guerrillas may find it in their mutual interest to have a serious, substantive dialogue that builds on the preliminary talks that began in October 1984 at La Palma between President Duarte and rebel leaders. This would antagonize the right, creating new problems for the region. On the other hand, failure to negotiate could prolong the fighting indefinitely.

The Outlook

After a revolution in Nicaragua and a coup in El Salvador in 1979, both governments have managed to stay in power. Both have had difficult problems managing domestic violence. Both have been forced to conform to the dictates of wartime economies. Both have seen their economies contract and per capita GNP fall. Neither has been able to dedicate adequate time and effort to a new economic strategy. Both have had difficult problems managing domestic political coalitions and meeting the demands of the opposition. Nicaragua projected its international image with great skill. In contrast, El Salvador has had to struggle to present a positive image. Both were able to meet their resource needs—at least through 1983. The ability of El Salvador to get foreign resources in coming years is more certain than Nicaragua's. Serious questions remain for the governments and peoples of both countries.

3

Scenarios for the Next Five Years

The dynamics of economic and political change in Central America have remained remarkably consistent since the Spanish colonial period. Central Americans have constantly adjusted their small, highly open export economies to the changes in the international market. Peak periods, when new products were marketed alongside traditional exports, have been followed by cycles of stagnation when the region has lost its comparative advantage and has had to return to more of a subsistence economy. Governments have alternated between interventionist development-oriented policies and laissez-faire, between receptivity to foreign interests and a rejection of those interests. In general, democratic traditions (outside of Costa Rica) have had little support, and while tensions between countries have occasionally exploded in regional war, there has been little ideological fragmentation. Rather, ideologies—whether liberal or conservative—have been assimilated in the entire region instead of simply in single countries. These same dynamics affect the region today.

In the next five years, Central American governments will again be forced to make choices. They must decide on an economic strategy. They must grapple with the basic problem of distribu-

tion. Finally, they must answer the question of participation—who will help make what decisions and through what process.

Choosing an Economic Strategy

Viable economic strategies for the Central American countries in the 1980s fall into three basic groups: (1) the new export orientation, (2) the continuance of the strategy of the 1970s, and (3) the reduction of dependence.

Proponents of the first strategy believe that the region must transform its industries to produce labor-intensive consumer exports such as footwear, textiles and electronic components. At the same time, traditional agricultural exports must be produced more efficiently and new nontraditional agricultural products, such as macadamia nuts, palm oil and fresh vegetables, must be promoted.

Supporters of this viewpoint argue that Central America must find and exploit its comparative advantage in the world economy. They recommend industrial policies to make Central America competitive, such as the gradual removal of protective tariffs, the tying of wage gains to industrial productivity, and the use of incentives to promote industry.

Those who favor export orientation must find answers to some difficult problems. To compete effectively with Singapore or South Korea, costs must come down and productivity must improve. The region needs lower transportation costs, more-efficient transportation networks, competitive wages, improved government efficiency, good product identification, excellent quality control and international markets.

How realistic is such a strategy in a Central America fraught with violence, with inward-looking family enterprises, a private sector without much confidence in the future, and governments which must break with tradition to implement such changes?

A second group believes that the world economic depression of the late 1970s was momentary and that it will be possible to continue the 1970s strategy based on industrial import substitution, five agricultural export products, and the Central American Common Market. According to this group, once recovery starts

and the prices of the region's primary products rise, acceptable rates of economic growth will return without a risky new strategy. They concede, however, that some adjustments will certainly be needed to make the existing traditional agriculture more efficient.

Proponents of this viewpoint fear that rapid reduction of protective tariffs could destroy the region's industry and result in more foreign control. They remember the destruction of infant textile enterprises by English firms in the 19th century after Central American liberals reduced tariffs.

Those who would like Central America to reduce its dependence recognize the need to continue with a strong export orientation to earn foreign exchange to purchase raw materials and finished products. However, they stress that in addition to modernizing and making traditional export agriculture more efficient, the region should become self-sufficient in food production. They recommend concentrating on a few important basic products for mass consumption in Central America and reducing the production of nonessential goods. They suggest diversifying purchases and sales in order to avoid becoming dependent on any one nation.

Food self-sufficiency is a laudable idea, but is it feasible? Will foreign exchange savings gained from not importing food offset losses from traditional export crops? Will the private sector really invest if governments pursue harsh policies to cut nonbasic consumption? Can the state fill the gap by becoming a key producer? These are the questions that Central American governments must answer as they search for new economic strategies for the 1980s.

Implementing Economic Strategy

To implement an economic strategy and to increase production, three options are available: (1) indebtedness, (2) stabilization, and (3) inflation.

Indebtedness: One way to redress balance-of-payments deficits is through more indebtedness. In 1981 Central America had more than $6.9 billion in foreign debt, or roughly $331 per

inhabitant. The region will need an average of $3 billion a year to cover its projected 1985-90 deficits.

Is further indebtedness an option in the 1980s? For some countries like Guatemala, whose debt-service payments were 6 percent of exports in 1982, debt is a viable option. For others like El Salvador and Honduras there may be room for maneuver, although political conditions in those countries may make lenders unwilling. For countries like Nicaragua, Costa Rica, and Panama, this option may be more difficult (see chart on p. 13). Foreign policy as well as economic considerations will probably determine whether countries like Costa Rica and Panama receive major new loans.

Stabilization: When Third-World countries are beset by balance-of-payments deficits and economic stagnation, they often request assistance from the International Monetary Fund (IMF, or the Fund). The Fund normally recommends policies to reduce consumption and help bring trade deficits into balance, and the World Bank provides structural adjustment loans to help in the transition. Typical measures include cutting budget deficits and subsidies to various sectors, raising taxes and enforcing wage controls.

The logic of such steps is that they establish the conditions for steady growth. Unfortunately, if such policies are rigidly implemented, they sometimes contribute to social explosions. Thus stabilization policies must be balanced against political risks. Five of the six Central American countries signed standby agreements with the IMF and structural adjustment loans with the World Bank from 1982 to 1984. The policies pursued were quite similar. Nicaragua, in contrast, opted for the policy of more debt and inflation.

Inflation: When other choices are not available, some governments attempt to secure their political base and start the economy moving again by increasing public expenditures without raising taxes. New government deficits must be covered through more debt financing or through expansion of the money supply. Public funds are then used to subsidize prices of basic goods, protect jobs and encourage investment. The logic of such an approach is that the economic stimulation generated will have a multiplier effect

that will increase production and spur the economy. However, at the same time, the expansion of the money supply and the maintenance of jobs may make more funds available to purchase nonexistent goods, thus putting more pressure on imports, forcing up prices and causing inflation.

Although final strategies and policies have not yet been defined, the economies of the Central American countries appear to be moving in the following directions. At least until January 1985, Nicaragua had opted for inflation and more indebtedness. Although it initially had hoped to reduce its dependence, the pressures of a wartime economy and internal conflict have prevented it from pursuing that strategy. Panama and Costa Rica have chosen a combination of stabilization, indebtedness and new export-oriented production. Honduras and El Salvador have opted for a combination of stabilization and more indebtedness and have not made a clear choice of a new production strategy. In El Salvador, the wartime economy makes it difficult to pursue any policy. Guatemala has more choices than the other Central American countries. It has a modest indebtedness, and its low level of public expenditures and a relatively small budget deficit make it less susceptible to the problems associated with imposed stabilization policies. It has not gone the route of inflation, but the lack of consensus about a production strategy has left Guatemala's path unclear.

The Role of the State

A key source of controversy in Central America is the future role of the state in economic activity. There is a sharp division between those who view the state as just a caretaker of minimal police, military and social services; those who believe the state should also be a major provider of social services and redistributor of income through taxation; those who believe the state should not only be a caretaker and provider but also an administrator of economic-support services such as banking, insurance and exports; and, finally, those who feel that the state should do all of the above as well as be a major producer of agricultural and industrial goods.

Central American countries have widely divergent views on

this question. In Guatemala, the idea of a caretaker state is widely supported. Its public budget as a percentage of GNP is among the smallest in Latin America. In Honduras, the state plays both caretaker and provider roles. In Panama, the government has been caretaker, active provider of social services, and direct producer of cement and refined sugar. In El Salvador and Costa Rica, the governments provide social services as well as control banking and insurance. Finally, in Nicaragua, the government is caretaker, provider of social services, controller of banking, insurance and trade, and owner of 21 percent of agricultural enterprises, 30 percent of industry, 70 percent of fishing, 90 percent of construction and 100 percent of mining. All told public spending currently accounts for more than 50 percent of Nicaragua's GNP.

The most likely trend in the next few years is a reduction of state activities in Costa Rica, Panama and Honduras where pressure from the IMF has targeted reductions of government deficits to below 4 percent of GNP. In Guatemala, the role of the state might be expected to increase marginally. Finally, in Nicaragua, government's role will probably stay the same or grow.

Distribution of Wealth

There have been wide differences in policies governing the distribution of wealth and income. In Costa Rica and Panama, outlays for health, social services and education have been quite high compared to those in Guatemala and Honduras. Taxation systems in Costa Rica and Panama have been more progressive than in other countries. In Nicaragua, El Salvador and Costa Rica, attempts to limit the concentration of wealth have led to state takeover of the banking system, land reform efforts, and the development and support of forms of popular participation in economic enterprises.

How will the goals of a more equitable distribution of income, economic growth and greater political participation be balanced? As government stabilization programs are implemented, the emphasis moves away from distribution to growth. This is the

approach favored by Costa Rica, Honduras, El Salvador and Panama. Guatemala's future approach is not clear. In contrast, the government of Nicaragua has opted to maintain a large-scale employment policy and price controls on basic consumer goods. Large deficits may make such policies extremely difficult to maintain in the future.

Participation: Who Decides What?

With the exception of Costa Rica, Central American governments in the last 40 years have not permitted high levels of political participation. Politics has been dominated by upper-class elites, principally military, business and professional interest groups. Most political parties have been weak organizations of notables formed largely at election time; many have been based more on an individual's charisma than on ideology and a connection to a mass base. Where participation has been limited and relations between different segments of society have deteriorated, many groups have resorted to violence to bring about change. As the polarization of the 1980s continues, two trends are notable: attempts to restructure government or to maintain the status quo.

In some countries, there is an active attempt to experiment with new methods of political participation to reestablish the social base necessary to govern without violence. In Costa Rica, President Luis Alberto Monge Alvarez wants to link what he calls the popular private sector (cooperatives which produce 10 percent of the GNP, the solidarismo movements with 100,000 members, democratic unions, and the rural community development movements) with the established private sector and government. By encouraging consensus, participation and discussion of how to share the benefits and costs of the transformation, Monge hopes to guarantee Costa Rica's future political stability. Similar efforts are taking place in Panama, but under more difficult circumstances.

The same attempt is evident in El Salvador. President Duarte's government is trying to forge links between its political base, comprised of small farmers and cooperative and trade union

members, and certain sectors of the business community. In Nicaragua, the Sandinistas, through a single party organization, have linked a mass base to a government elite which makes the key economic decisions. Rather than reach out to the organized private sector, the Nicaraguan government sets the rules which tightly restrict this sector's operations.

In contrast, Guatemala so far has used military control as an alternative to building a mass base for political stability, although a multiparty system has continued to develop despite the uncertainty created by military coups in 1982 and 1983. Finally, in Honduras, the military maintains order, the private sector has its own base, and the government has ties to both urban labor and to rural unions. No clear integrative mechanism has appeared as yet.

Four Scenarios, 1985-90

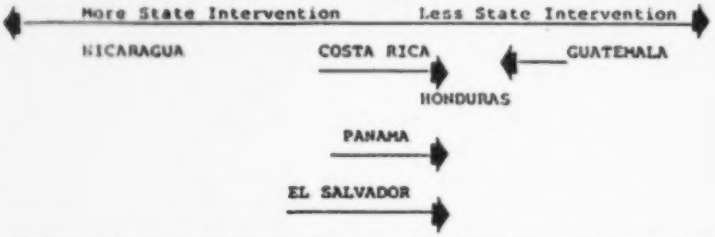
Given these key issues, problems and decisions in the context of international pressures discussed earlier, the following scenarios are possible for Central America in the next five years: (1) Nicaragua isolated; (2) Central America divided; (3) return to the center; and (4) regional war.

Nicaragua isolated (5 against 1). In this scenario, Nicaragua would expand its policy of active government intervention as caretaker, provider, administrator and producer. Its public expenditures as a percentage of GNP would remain at more than 50 percent. It would seek to reduce its dependence on the United States by increasing traditional and nontraditional agricultural exports, stimulating basic grain production and industrial import substitution and reducing nonbasic consumption.

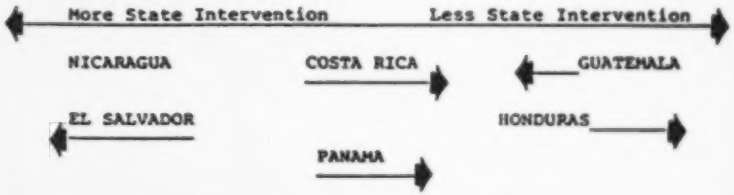
In contrast, Costa Rica, Panama, El Salvador and Honduras would cut the state's role in the economy, with resultant smaller government deficits, employee and service reductions, the sale or transfer of certain government-owned enterprises to private hands, and the implementation of IMF agreements. Costa Rica and Panama might be the front-runners in transforming and expanding industrial exports, with Guatemala and Honduras following, should the others demonstrate success. El Salvador

SCENARIOS FOR 1985–90

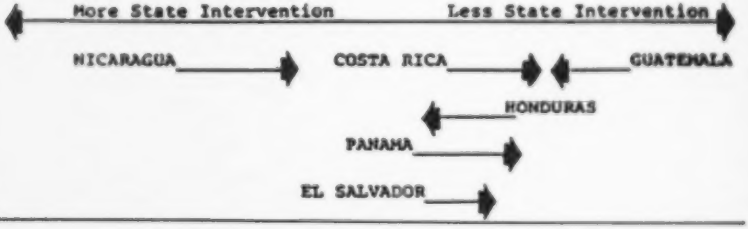
SCENARIO ONE: NICARAGUA ISOLATED (5 AGAINST 1)



SCENARIO TWO: CENTRAL AMERICA DIVIDED (2, 2, AND 2)



SCENARIO THREE: RETURN TO THE CENTER (6 OR NONE)



(*) The countries in the region have been placed on a continuum based on their view of the role of the state as of 1984. The starting point is the same for all scenarios. Those countries which have a greater role for the state as defined by % of the GNP used for public expenditures appear to the left on the continuum and those with less role of the state appear on the right. Where there is no arrow, no change is expected.

might pursue export-oriented policies if wartime conditions permit. Finally, Guatemala might increase its level of public expenditures.

This scenario is based on various assumptions. High levels of U.S. military and economic aid to the other countries in the region continue, but U.S. domestic opposition to direct intervention in Nicaragua or El Salvador limits the scope of U.S. action. U.S. aid to the contras and a policy of neutralizing Nicaragua's impact on the rest of the region continues. Second, Nicaragua continues to receive sufficient socialist-bloc and West European aid and loans to subsidize its economic policy and resultant large fiscal deficits, thus permitting it to continue its current strategy. Third, in El Salvador, the government rotates between the Christian Democrats and ARENA in coming years. The military capacity of the FMLN is controlled substantially, and conflict with the political right is reduced. In Panama, despite close elections in May 1984, the official Democratic Revolutionary party (PRD) and the National Guard will have built a sufficient popular base and ties to the private sector to provide stability and growth and eventual rotation of power with opposition political parties. Finally, it is assumed that Costa Rica's government is successful in solidifying the new social base.

Central America divided (2, 2 and 2). In this scenario, three Central Americas might evolve. In the center of the isthmus, Nicaragua not only maintains its current posture but El Salvador ends up with either a coalition government with active FMLN participation or the FMLN wins a military victory. Both countries receive substantial aid from the Soviet Union, Eastern Europe and some West European countries. Both move in the direction of more state intervention in the economy. In the south, Costa Rica and Panama continue on their path of economic transformation, export promotion and the restructuring of the social base. Because of U.S. and West European assistance as well as support from multilateral donors, they move toward a position of less state intervention in their economies. Finally, in northern Central America, Honduras and Guatemala move to a position of less state intervention in the economy, but are more inclined to continue the economic policies of the 1970s. In the political

sphere, fragmentation in Honduras does not permit the clear development of a broad base, and in Guatemala the government continues with a policy of regime maintenance.

This scenario is based on the assumption that the United States does not provide the military or economic assistance necessary to maintain El Salvador's regime. The international economic situation does not recover sufficiently to help stimulate the Central American economies. The socialist bloc continues to make major loans and donations of more than $400 million a year to Nicaragua and an equivalent amount to El Salvador, should a revolutionary government come to power there. The United States makes efforts to provide resources to Costa Rica, Honduras, Guatemala and Panama.

Return to the center (6 or none). In Central America's history, most countries have followed the same basic economic and political strategy. They have often swung from one strategy to another as a group. This scenario is based on the assumption that socialist resources and presence in the region are reduced either through negotiation with the United States or through the socialists' inability to provide the levels necessary. The Sandinista government in Nicaragua, perhaps under pressure from the contras, either loses militarily, negotiates a broader-based government which includes the contras, or creates a more open system of its own accord. Massive U.S. resources are made available. Nicaragua moderates its position on the highly interventionist role of the state and also moves to a more export-oriented strategy. Honduras and Guatemala move from a caretaker to a more social-service-oriented state role in the economy. Costa Rica, Panama and El Salvador move toward a slightly less interventionist role by modernizing the banking sector and making it more flexible, and returning some public enterprises to private hands. The dominant economic policy is that of export promotion.

Regional war. Several incidents broaden the Central American conflict. The focal point of such incidents could be either Nicaragua or El Salvador. In Nicaragua war might start by miscalculations by troops along the Honduran or Costa Rican borders which result in an invasion or counterattack. The United States might consider invading should large numbers of Cuban or Soviet

troops or Soviet missiles be found in Nicaragua. The Nicaraguan government itself might consider an attack on Honduras or Costa Rica to provoke reaction, or the government of Honduras might consider attacking Nicaragua for the same reason. A regional war starting with El Salvador might begin with the deployment of U.S. troops should the Salvadoran military be unable to hold its ground. A military victory by the FMLN might provoke a strong reaction by Guatemala, Honduras and the United States.

Without the use of troops from outside the region, such regional wars based on sharply accelerated exchanges might be quite short. For example, it would be difficult for the Nicaraguan military to occupy Costa Rica or Honduras and hold it without strong international reaction and tremendous difficulties with its own supply lines. At the same time, it would be difficult for Honduran, Salvadoran or Guatemalan forces to occupy Nicaragua and manage the guerrilla war they would have on their hands. Direct U.S. intervention in Nicaragua on a scale sufficient to hold back and control guerrilla groups would require large-scale resources and would meet with opposition in the United States and the international community as well.

A more likely scenario for the regionalization of the Central American conflict would be a slow, almost unnoticeable increase in the number of U.S. military advisers to the Salvadoran armed forces and to the contras and their gradual assumption of a fighting role, on the one hand; and the gradual inclusion of Cuban and other socialist-country military advisers and finally combatants on the side of the Sandinistas and the FMLN, on the other hand. This gradual slippage toward regional war would include more and more violations of the frontiers with Costa Rica and Honduras by other groups until large zones of those countries became war zones. Finally, both sides would begin to supply both guerrillas and governments in Panama, Honduras and Guatemala and to work actively to increase the levels of polarization there.

The scenario which actually unfolds in the region will depend both on internal conditions discussed in earlier chapters and on what external actors do. In the next chapters the role of governments outside the region will be discussed.

4

Does Central America Matter?

The world matters greatly for Central America; Central America (except for the Panama Canal) matters little for the world. How can governments, then, explain and build support for their activism in Central America, where few but the region's own citizens have clear interests?

The main objective interest of international powers in the Central American isthmus since the first quarter of the 16th century has been how to get from one ocean to the other. In this century, that interest has focused on the use and defense of the Panama Canal. During the Vietnam war, an average of 770 U.S. Navy ships transited the Canal every year. After the war, the number fell to 200. Because the time required to sail around South America ranges from two to four weeks, the Canal's closure would greatly delay the naval reinforcements needed for major U.S. military action.

However, the Canal's military value has declined considerably. The aircraft carrier has replaced the battleship as the prime ship leading task forces or battle groups, and all U.S. aircraft carriers on active duty are too big to use the Canal. The warships that accompany a carrier would have to stay with it in wartime, so they, too, could not use the Canal. The Canal's main wartime use

would be limited to logistics support. Moreover, the United States has a two-ocean navy now. Finally, in the case of nuclear war, the Canal would be indefensible and militarily insignificant.

The Canal remains important to world trade. Over one fifth of the ocean-borne trade of the following countries transits the Canal: Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Nicaragua and Panama. The Canal also represents over one tenth of the ocean-borne trade for Honduras, Japan, Mexico, New Zealand, North Korea and South Korea. No European government has a major stake in the Canal. The Canal is important to the United States primarily because it matters to the trade of countries in East Asia and in Latin America that matter to the United States.

The U.S.-Panama treaties governing the Canal's use, neutrality and defense have enhanced the Canal's security by increasing Panama's economic and political stake in its operation. Canal traffic is the country's major economic resource. No Panamanian government, regardless of ideology, could afford to close it. A neutral Canal is also less likely to come under attack by a third power. The treaties establish the rights and duties of the United States and Panama to defend the Canal and to move their ships to the head of the line in an emergency.

The possible construction of a second transisthmian canal would not be adverse to U.S. or world trade interests. It would facilitate U.S., Latin American and East Asian trade at cheaper toll rates as a result of intercanal competition.

Other objective interests of non-Central American countries in the isthmus are quite modest. For example, in the early 1980s all six Central American countries represented less than 1 percent of the trade of such countries as the United States, West Germany, France, Britain, Sweden and Japan.

Central America also lacks significance in terms of economically strategic resources. All Central American countries are net energy importers, although Guatemala may become energy self-sufficient, and their strategic mineral exports are very modest.

Moreover, northern Central America does not command major trade routes. The Soviet Union would not gain much significant

advantage from using Central American facilities to disrupt nearby sea-lanes; it could do so more effectively operating from Cuba.

Investments. In 1980 the six Central American countries combined accounted for just under 2 percent of the book value of all U.S. direct foreign investment; Panama alone accounted for three quarters of that. The United States is the most significant direct foreign investor in Central America.

Debt. In terms of financial debt, the six Central American countries accounted for about 1.8 percent of the accumulated debt from all private and public sources of all less-developed countries in 1980.

Western Europe

None of the West European countries has a great interest in Central America. However, several, especially those governed by social democratic parties, pursued ideological and political objectives in conflict with U.S. policies for two to three years. By 1984, all of them had concluded that Central America did not matter enough to risk their relations with the United States, and their opposition to U.S. policies became more subdued. Moreover, many social democratic parties became disenchanted with the march of Sandinista Nicaragua toward a harder left at home, and toward closer international collaboration with Cuba and the Soviet Union.

The West Europeans still sought to moderate U.S. policy toward Central America, but not to confront it. Thus, in early 1984, the Europeans protested the mining of Nicaragua's harbors by operatives under the direction of the CIA but did not pursue the confrontation once the mining stopped. They continued to support negotiations to settle Central America's disputes, but without supporting the side opposed by the United States.

West Germany. The Federal Republic of Germany has been one of the four most important trading partners of every Central American country. West Germany is also the largest aid donor after the United States. West German aid increased from $19 million in 1978 to $36 million in 1980.

West German policy changed in 1980. Chancellor Helmut Schmidt's Social Democratic government recalled its ambassador to El Salvador, cut $14 million in economic aid for 1980-82, and supported the FDR. West German relations with Guatemala also deteriorated sharply. The coming to power in West Germany of a Christian Democrat-led coalition in late 1982 edged West Germany away from Nicaragua's Sandinista government. The policy shift was complete when Christian Democrat Duarte was elected El Salvador's president in 1984: West Germany then resumed aid to El Salvador, pledging $18 million.

France. French trade and investment interests in Central America are negligible, and French aid to the region in 1980 was only $2 million. François Mitterrand changed France's policy when he became president in 1981, emphasizing a left-wing ideological activism. In mid-1981, the French and Mexican governments recognized the FDR in El Salvador as a "representative political force." In late 1981, France agreed to sell about $16 million worth of military equipment to the Sandinista government. From 1979 to 1982, French trade with Nicaragua increased while French trade with El Salvador fell.

By late 1982, however, the Mitterrand government had distanced itself from the Sandinistas. When Daniel Ortega visited France, Mitterrand demanded a return to the "originality of the Sandinista project" and called for "authentic nonalignment." The French Socialist government suspended its military relationship with Nicaragua but continued some economic aid.

Britain. The main British interest has been to deter a Guatemalan invasion of its former colony of Belize, independent since 1981. Guatemala does not recognize Belize's independence and it claims all of its territory. Britain keeps 1,600 troops and a Royal Air Force Harrier detachment in Belize; it opposes the full-scale resumption of U.S. military aid to Guatemala.

Prime Minister Margaret Thatcher's government has little interest in Central America's politics, though its views coincide with the Reagan Administration's. It was the only European government to send an observer to the March 1982 elections in El

Salvador. It announced new though modest aid to El Salvador in 1984.

International party organizations. Both the Socialist International and the World Union of Christian Democrats (worldwide federations of kindred parties) have funded political parties in Central America.

By late 1978, the Socialist International supported Somoza's overthrow. El Salvador's National Revolutionary Movement (MNR), led by Ungo, joined the Socialist International in 1978. The MNR belongs to the FDR, also led by Ungo—the civilian arm of the Salvadoran insurgency. The Socialist International used its prestige to legitimate the democratic credentials of El Salvador's FDR and of the Sandinistas. But in late 1982, the Socialist International began to distance itself from the Sandinistas, now seen as Marxist-Leninists. Thus the Socialist International's reaction parallels that of West European governments: disappointment and disengagement in Central America, though still quite critical of the broad outlines of U.S. policy.

European Community. In September 1984 the foreign ministers of the European Community, joined by Spain and Portugal, met in San José, Costa Rica, with the foreign ministers of the Central American countries and the Contadora group—Colombia, Panama, Mexico and Venezuela—who had been working for almost two years seeking a negotiated solution to Central America's problems. The Europeans pledged support for such negotiations but made no specific commitments. They promised to increase their aid to all of Central America from $30 million in 1983 to $45 million in 1985—far short of what the European Community's own Council recommended. The most dramatic step was the European reaffirmation to treat Nicaragua as eligible for aid despite rising U.S. opposition to Nicaragua's government.

Cuba and the Soviet Union

Cuba. In Central America, Cuba is not a "proxy" for anyone. On the contrary, the Soviet Union followed Cuba's lead. In

December 1982, Cuban Premier Fidel Castro explained this relationship candidly, though embarrassingly, for a Soviet Union that may think of itself as the center of world revolution:

> One of the great lies that the imperialists use concerning Central America is their attempt to impute the revolutions in this area to the Soviet Union....[The U.S.S.R.] has had nothing whatsoever to do with Central America....The Soviets did not know even one of the present leaders of Nicaragua...during the period of revolutionary struggle....The same holds true for El Salvador...with the exception of the Communist party of El Salvador—...not one of the major groups—the Soviet Union did not know the leaders of [most Salvadoran] revolutionary organizations and had no contact with them. The same goes for Guatemala....We Cubans...have relations with the revolutionary movements, we know the revolutionary leaders in the area. I am not going to deny it.

Castro's policy toward Central America has been to oppose Cuba's historical enemies—the United States, Somoza's Nicaragua and successive Guatemalan presidents—and to support Sandinista Nicaragua.

Cuba's interest in Central America dates from Castro's victory in January 1959. Expeditions left Cuba in 1959 to overthrow the governments of Panama and Nicaragua. In 1960-61, Nicaragua and Guatemala allowed the CIA to use their territory to train Cuban exiles who landed at the Bay of Pigs in April 1961 to overthrow the Cuban government. By 1964, all Central American countries had broken diplomatic and economic relations with Cuba. In turn, Cuba has given training and other support to Nicaragua's Sandinista FSLN since the 1960s. In Guatemala, Cuba supported revolutionary armed struggle.

Cuba was less active in support of guerrillas in the Americas in the early 1970s and reestablished relations with Panama and later with Costa Rica. In late 1977, Cuba reactivated its support for the Sandinistas in collaboration with Venezuela, Panama and Costa Rica. As Sandinista Interior Minister Tomás Borge Martínez has said, Cuba shipped weapons to the Sandinistas through Costa Rica; Borge has also said with pride that he graduated from over a year of military schooling in Cuba which

enabled him to train other Sandinistas fighting Somoza. Somoza's fall in July 1979 did not result simply from Cuba's efforts, but it was certainly a long-desired goal of Cuban foreign policy.

By 1980 Cuba thought Central America was ripe for revolution. It reactivated support for Guatemalan guerrillas. In El Salvador, Cuba has not denied that it may have coordinated the acquisition and delivery of weapons from other countries to the Salvadoran guerrillas, although it has denied that there have ever been Cuban advisers working in El Salvador or that it redistributed weapons received for its own use from the Soviet Union. Castro has admitted that Cuba supplied weapons and ammunition to the Salvadoran guerrillas in late 1980 and early 1981, noting only that it had become difficult to continue. El Salvador's FMLN has acknowledged that "we could not possibly move ahead without the aid of the socialist camp, Cuba and Nicaragua." Cuba's role, in short, is an important, albeit secondary, factor in explaining events in recent years in El Salvador.

Cuba's relations with Nicaragua's Sandinista government have been very close since July 1979. Cuba admits to having supplied several thousand teachers, doctors, health technicians, construction workers and agricultural technicians. Cuba has also sent military and internal security advisory personnel. While Cuba says there are at most a few hundred, the U.S. government says there are several thousand. Some Cuban civilians in Nicaragua are likely to be well-trained military reservists, as happened in Grenada before its government's overthrow by U.S. and allied Caribbean forces in October 1983. Much Cuban assistance to Nicaragua has been donated free of charge; the rest has been given at nominal charges.

The Soviet Union paid little attention to Central America, focusing instead on South America, until the Nicaraguan revolution. The Soviet approach to Nicaragua was cautious at first. Soviet-Nicaraguan diplomatic relations were delayed until October 1979; the first official Nicaraguan delegation reached Moscow only in March 1980. From 1979 through early 1982, the U.S.S.R. had contributed only $76 million, about half the level of U.S. aid to Nicaragua.

Soviet aid increased after Daniel Ortega's official visit to Moscow in May 1982. Agreements were signed on hydroelectric engineering, communications, geological prospecting, agriculture, personnel training, public health and other types of assistance. Soviet concessionary development credits included support for installing a floating dock on Nicaragua's Pacific coast and for building a ground station to connect with the Intersputnik system—projects which may also have military value. Soviet military aid to Nicaragua is more difficult to document, but the International Institute for Strategic Studies confirmed the delivery as early as 1981 of 25 Soviet T-55 main battle tanks. In 1983, Soviet aid to Nicaragua included $30 million in donations and another $96 million in loans and lines of credit.

Evidence of Soviet support for revolutions elsewhere in Central America is meager, although two Moscow-oriented Communist parties—El Salvador's and Guatemala's—have been fighting in the 1980s. The Communist party of Honduras is clandestine and Costa Rica's has split, in part over whether to pursue armed struggle.

Soviet interests in Central America are vague, perhaps explaining the Soviets' initial caution after Somoza's fall in July 1979. The Soviets have emphasized solidarity with Nicaragua's revolution, and are pleased about its closer alignment with them. They recognize that Central America presents problems for the Reagan Administration, weakening internal support in the United States for its foreign policy and somewhat straining U.S.-West European relations. The Soviets may seek to tie the United States down and to embarrass it and complicate its foreign policy.

However, if the Sandinista government were overthrown by enemies supported by the United States, this could be a setback for the Soviet Union and its allies. Soviet policymakers need to decide whether to cut back their commitment to Nicaragua—so that a Sandinista defeat would not be equated with a Soviet defeat—or to increase sharply their support for the Sandinista government, identifying Soviet interests with it, in order to prevent its overthrow.

Venezuela and Mexico

Venezuela has supported other democracies in the hemisphere and opposed dictatorships since the birth of its own democracy in 1958. In the 1960s, it opposed Rafael Leónidas Trujillo's rule in the Dominican Republic and Castro's in Cuba. In this tradition, President Carlos Andrés Pérez, who was also active in the Socialist International, provided much support to the anti-Somoza coalition. In 1979, the new administration of Christian Democrat Luis Herrera Campíns broke with Venezuela's bipartisan foreign policy tradition. The Herrera administration maintained the relationship with Sandinista Nicaragua but its embrace was far cooler. It assisted El Salvador after Christian Democrat Duarte joined the governing junta in 1980 in response to Nicaragua's and Cuba's increased support for the Salvadoran guerrillas. Venezuela's policy was rather close to that of the United States at a time when most European governments and Mexico, as well as Venezuela's own Democratic Action party (a member of the Socialist International) were in conflict with U.S. policies.

Mexico's policy toward Central America had been passive before 1970 despite increased trade and investment in the 1960s. Its noninterventionist tradition has led it to maintain proper relations with most governments. In a departure, President José López Portillo broke with the Somoza government on May 20, 1979, and began to hold up Mexico's own revolutionary heritage as a model for Central America. Mexico subsequently established close relations with the Sandinista government. Mexican policy was close to that of the Socialist International, although its official Institutional Revolutionary party (PRI) is not a member. Until 1985 Mexico remained the Sandinistas' main non-Communist ally in the Americas, committing over $130 million in loans, credits and grants.

Mexico recalled its ambassador to El Salvador in 1980. In August 1981, France and Mexico recognized the "representative political character" of El Salvador's FDR. Mexico provided a safe haven for the civilian exiled officials of the Salvadoran revolution. It proposed several negotiated solutions to El Salva-

dor's problems, all of which would have given the left a greater role. Beginning in 1983, Mexico's ardor for El Salvador's revolutionaries cooled, in part out of concern over damage to U.S.-Mexican relations. The Mexican foreign minister's attendance at Duarte's inauguration as president in 1984 symbolized this policy change.

Mexican policy toward Guatemala, on its southern frontier, differed the most from that of the Socialist International. Mexico has not supported Guatemalan insurgents and has maintained correct, though not friendly, relations with the government.

The San José Agreement and Contadora

Two outstanding Mexican and Venezuelan policies survived the various shifts and demonstrate those countries' statesmanship. On August 3, 1980, in San José, Costa Rica, Mexico and Venezuela agreed to establish an oil facility to fulfill the import requirements of the six Central American countries as well as Barbados, Jamaica and the Dominican Republic. The beneficiaries paid only 70 percent of the cost upon receipt of the oil, with the balance paid through long-term credits at below-market interest rates. Despite the financial crisis that hit Venezuela and Mexico in 1982-83, the San José agreement was renewed on July 27, 1983 (Belize was added as a beneficiary), albeit under somewhat less generous terms. Mexico and Venezuela have continued to supply oil despite their political disagreements with each other and with some of the beneficiaries.

Mexico's concern with the trends in U.S.-Nicaraguan relations, its isolation on Central American issues from most Latin American governments, the change in the Central American policies of European Social Democrats, and the inauguration of Miguel de la Madrid Hurtado in December 1982 edged Mexican policy toward change. When Duarte left the junta in El Salvador in 1982, the Venezuelan government was also ready for a change, freeing itself from the Reagan Administration's embrace that had become politically divisive in Venezuela. General Omar Torrijos Herrera's death in Panama in 1981 brought to power more-conservative successors worried about Nicaragua and about the spread of warfare. In 1982, Colombia's new Conservative presi-

dent, Belisario Betancur Cuartas, sought to impart a higher profile to Colombian foreign policy.

Representatives of these four governments met on Contadora island, Panama, in January 1983 to begin a joint mediation. The Contadora countries have sought the agreement of Central American and other interested governments on increasingly specific proposals to contain conflicts. Their 1984 draft treaty sought the control and reduction of arms in Central America; the removal of all foreign military and internal security advisers; the prevention of the installation of military bases; the end of all support, encouragement, financing or toleration of "irregular forces" in Central America; the suppression of the arms traffic; the promotion of elections and internal democratic processes; and political and economic cooperation. This would require policy changes in all Central American countries, the United States and Cuba.

The Contadora countries see their security threatened. This threat is most vivid for Mexico, which fears U.S. intervention in Central America. Colombia has a territorial dispute with Nicaragua over certain islands; it is anxious to keep the dispute from growing. Colombia has its own guerrilla insurgency, which it wants to deprive of external support; a cease-fire was agreed upon in 1984. Panama fears the spread of Central America's conflict. Venezuela's interest in Central America is the least direct; like that of the United States, it is perceptual and psychological. Like the United States, Venezuela committed considerable resources to the region, and this policy continues under President Jaime Lusinchi.

Mexico, Venezuela, Panama, Colombia and Cuba have changed Central America's international relations. Whereas the West European involvement in Central America has been limited, the non-Central American Latin American involvement is more enduring. The Venezuelan-Mexican San José agreement assists Central America's economic survival, while the Contadora process opens a nonmilitary window for the future. Cuba, too, is permanently engaged in Central America's revolutions. Central America's affairs, therefore, have not been internationalized so much as inter-Americanized, with interwoven strands of conflict and cooperation.

5

U.S. Policies, Interests and Options

U.S. policies toward Central America have sought to serve U.S. interests as defined by successive Administrations. Central America had been an important focus of U.S. policies in the first third of the 20th century. The construction of the Panama Canal—a triumph of U.S. engineering, financing, management and imperialism—required an enduring U.S. policy. The United States established a protectorate over Panama; it intervened repeatedly in Panama and, later, in Nicaragua through the 1930s. U.S. economic stakes were never very large, but this U.S. presence certainly loomed large in small countries.

After the 1930s, the United States was concerned mainly that the subregion north of Panama not fall into an adversary's hands. That was an easy task, requiring at most, in 1954, support for exiles to overthrow Guatemala's government, which was seen as too close to the Soviet Union. The Kennedy Administration's policies included aid for democratic Costa Rica's development (successful); training Cuban exiles in Nicaragua and Guatemala to overthrow Castro's government (unsuccessful); preserving

democracy in Honduras (unsuccessful); and providing counterinsurgency aid to defeat guerrillas (successful). By the mid-1970s, U.S. economic and military aid had declined, but a new concern with protection of human rights had surfaced.

The U.S. Congress passed legislation that made it difficult to aid governments that systematically violated human rights. President Jimmy Carter took office in 1977, committed to implementing human rights policies. That led to a threeway split in U.S.-Central American relations. Costa Rica, respectful of human rights, continued to receive U.S. aid. The governments of Guatemala and El Salvador did not want to be pressured by the United States; they stopped accepting military aid from the United States although some economic aid continued. Somoza's Nicaragua did not respect human rights but the regime was too dependent on the United States to break with it. By default, Nicaragua became the focal point of the U.S. human rights policy in Central America; Somoza could not live without U.S. support but he could not behave as the Carter Administration wanted.

Nicaragua: The Nicaraguan revolution led the United States in 1978 to try to mediate between Somoza and the opposition; it proposed a plebiscite on whether Somoza should remain as president. When Somoza rejected this proposal, a stymied United States faced a deteriorating situation in Nicaragua. Searching for an alternative to Somoza and the Sandinistas, the United States proposed in June 1979 to the Organization of America States (OAS) that a military force be sent to end the war and organize Somoza's replacement; the United States was rebuffed by most countries. Although the United States helped end the Somoza regime, it could not prevent a Sandinista victory.

The Carter Administration helped the new Nicaragua, hoping for internal pluralism and friendly nonalignment. Much U.S. assistance was immediately reprogrammed to assist Nicaragua; another $75 million was asked from Congress. In 1979 and 1980, the United States was Nicaragua's main donor. In the first three years of Sandinista rule, the United States supplied over $138 million in loans and grants; about $45 million in loans were

economic support funds, typically given only to close U.S. allies, on very favorable terms.

The main constraint, written into law by the U.S. Congress, was that Nicaragua not assist El Salvador's guerrillas. The U.S. government became convinced that the Sandinistas did precisely that in late 1980 and early 1981, working with Cuba and possibly others. In January 1981, the Carter Administration suspended aid to Nicaragua and lifted the human rights restraints on military aid to El Salvador.

The Republican party platform and candidate Ronald Reagan in 1980 denounced Carter policies toward Nicaragua. After the election, Secretary of State Alexander M. Haig Jr. and U.S. Ambassador to the United Nations Jeane J. Kirkpatrick consistently referred to Nicaragua's totalitarianism and described its relations with the Soviet Union as if there were no difference between Nicaragua and Cuba. Although this rhetorical excess surely damaged U.S.-Nicaraguan relations, Nicaragua did cut off supplies to El Salvador's guerrillas by March 1981. Nonetheless, the Reagan Administration permanently ended U.S. aid to Nicaragua on April 1, 1981 (although some aid already "in the pipeline" still flowed to honor U.S. obligations).

U.S. Assistant Secretary of State for Inter-American Affairs Thomas O. Enders attempted to improve U.S.-Nicaraguan relations in the summer of 1981. He indicated U.S. willingness to coexist with Sandinista Nicaragua in exchange for substantial changes in Nicaraguan foreign and domestic policies. He engaged in fruitful discussions in Managua and produced draft agreements to which the Sandinista government never responded. Some Nicaraguan officials apparently thought the terms too tough; some may have thought them insulting; others may have thought that West European, Mexican and internal U.S. opposition to the Reagan Administration's policies might produce better terms later. The terms were tough—but they were the best the United States had to offer. The Reagan Administration became less interested in negotiations in 1982 and 1983, dismissing as propaganda the draft treaties for regional peace proposed by Nicaragua in October 1983 although they met many (but not all)

U.S. goals. Special Ambassador Richard Stone's appointment in mid-1983 was designed more to placate U.S. critics than to lead to negotiations.

In December 1981, President Reagan authorized the CIA to train and support Nicaraguan exiles, based mostly in Honduras; many former members of Somoza's National Guard, as well as a number of former Sandinistas, were included. The formal rationale has been that these trained exiles would interdict the flow of weapons and other supplies from Nicaragua to El Salvador's guerrillas. There is no doubt, however, that these forces—the contras as they are generally called, or freedom fighters as President Reagan calls them—seek to overthrow Nicaragua's government, and that the Reagan Administration would applaud that outcome.

The contras' most serious attacks against the Managua government began early in 1983. In early 1984, the CIA and the contras collaborated to mine Nicaragua's harbors. The United States gave notice that it would not recognize the jurisdiction of the International Court of Justice at The Hague, anticipating an adverse judgment in response to the suit filed by Nicaragua. The mining ended because of opposition by West European and other governments whose ships had suffered from the mining and by huge bipartisan majorities in the U.S. Congress.

CIA operatives also drafted a manual advising the contras on the use of terrorist tactics, including assassination. In late 1984, the U.S. Congress, especially the Democratic party majority in the House of Representatives, balked at continued U.S. funding for the contra war. Funds were cut off on October 1, 1984. President Reagan, however, has reiterated his intention to seek renewed funding. In the meantime, private U.S. groups, in sympathy with Reagan Administration goals, have increased their support for the contras.

El Salvador: The United States has consistently backed El Salvador's beleaguered government since October 1979. The Carter Administration increased economic aid from $9.7 million in FY 1978 to $57.8 million in FY 1980. Under the Reagan Administration, economic aid reached $333 million in FY 1984;

the request for FY 1986 is $350 million. U.S. military aid increased from $5.9 million (nonlethal) in FY 1980 to $244 million (all kinds) in FY 1984. That figure does not include U.S. naval and air surveillance and interdiction personnel, equipment, and funds for El Salvador that can be charged to Pentagon programs for maneuvers in the Pacific Ocean or in Honduras. Nor does it include U.S. CIA funds to interdict supplies to Salvadoran guerrillas. The United States also used its influence in the Inter-American Development Bank to channel funds to El Salvador (and reduce funds for Nicaragua). Thus it is impossible to calculate the real total of U.S. assistance to El Salvador. Within El Salvador, U.S. military advisers (up to a ceiling of 55 through 1984) train the Salvadoran army. Training of Salvadoran soldiers was also carried out in Honduras for about two years, and it continues in the United States itself.

Successive recent U.S. ambassadors to El Salvador (Robert White, Deane Hinton and Thomas Pickering) have strongly influenced El Salvador's internal politics. As El Salvador's center of authority fragmented, the U.S. embassy mediated among members of various nonrevolutionary forces. The U.S. ambassador supervises the economic and military assistance effort; serves as public relations spokesman for U.S. policies; pressures the Salvadoran government to meet the human rights and reform objectives which are important for their own sake as well as for continued U.S. support; and tries to prevent the weakening of government authority.

The United States has supported elections in El Salvador. However, the 1982 Constituent Assembly elections had the effect of dispersing power because there was no clear winner. The Christian Democratic party got the largest plurality but the smaller parties to its right had the majority in the Assembly. Without a U.S. role, the leader of the major right-wing party (ARENA), D'Aubuisson, might have emerged on top, imperiling continued U.S. aid for El Salvador because it has been alleged that he is linked to death squads. After the elections the U.S. embassy promoted the Assembly's choice of Magaña as the country's president. He was supported by the three major parties,

which divided the ministries among them, thereby institutionalizing government fragmentation until Duarte's election two years later. The Reagan Administration applauded Duarte's election.

The problem faced by the U.S. ambassador has been clear and virtually insoluble: how to support El Salvador's government so that it does what the United States wants it to do without smothering it and hurting El Salvador's pride and independence.

President Duarte took steps to establish his independence when, in the fall of 1984, he called for negotiations with the rebels seeking to overthrow his government. Duarte had not consulted the U.S. government in advance of this specific initiative (although the United States supported this step after he took it); indeed, his bold stroke came only days after a confident statement by Undersecretary of Defense Fred Iklé that the United States and the army of El Salvador were ready to defeat the Salvadoran revolutionaries within two years. Duarte either did not believe him or did not wish to wait so long for an end to the carnage.

The Jackson Plan and the CBI: In the spring of 1984, the Reagan Administration adopted many recommendations of the Bipartisan Commission chaired by Kissinger. The Jackson Plan, honoring the late Senator Henry Jackson (D-Wash.), called for supplementary $400 million economic and $295.5 million military assistance grants to Central America for FY 1984; about $178 million of the combined total was for El Salvador. The Jackson Plan went beyond one-year requests. It called for $5.9 billion in economic aid and $2 billion in insurance and guarantees for FY 1985 through FY 1989 to allow for better planning. It also requested $30.8 million for FY 1984 and $199 million for FY 1985 to create a new Central American Development Organization to help the region's reconstruction and development.

The Jackson Plan went beyond President Reagan's earlier Caribbean Basin Initiative (CBI), proposed in February 1982, which covered economic aid previously committed to Central America and to the Caribbean. The United States immediately implemented some aspects of this program. The U.S. Department of Agriculture offered technical assistance to gear the region's agricultural production to world-market quality standards; it

increased support for tropical agriculture research; and it established an Agribusiness Promotion Council and an agricultural information center for U.S. firms. The U.S. Department of Commerce, which oversees the CBI, set up a Caribbean Basin Business Information Center to promote U.S. investment. Some U.S. Export-Import Bank funds have been rechannelled to the region. The Overseas Private Investment Corporation is also supporting U.S. private investments in Central America, at times against its own wishes.

The Office of the U.S. Trade Representative has developed a worldwide program of bilateral investment treaties to promote U.S private investment. The United States and Panama have signed one such agreement; others are reluctant to sign these treaties because they prevent host governments from giving preference to their own local businesses to help them compete with U.S. firms.

The CBI's centerpiece was the provision that imports from Central America and the Caribbean enter the United States duty-free for 12 years without requiring reciprocal concessions. The President's proposal excluded textile and apparel products; the U.S. Congress also excluded footwear, leather products, canned tuna, and petroleum-based products.

One-way free trade went into effect on January 1, 1984. Although its short-term effects are modest because 87 percent of Central American and Caribbean exports already entered the U.S. duty-free, this is an imaginative and constructive proposal. Its main impact will be to stimulate investments in the region in industries producing duty-free exports to the United States, generating production and employment in the latter 1980s and early 1990s. The war-ravaged northern Central American countries are likely to benefit less, and Costa Rica and Panama more.

Bilateral consequences of regional policies: As U.S. policies toward Nicaragua and El Salvador acquired a regional focus, this regionalization had consequences for others.

Guatemala: U.S.-Guatemalan relations changed little during the first Reagan term, contrary to the hopes raised among conservative Guatemalans by Reagan's 1980 election. The Gua-

temalan claim to Belize, the British military presence in Belize, and the international support for Belize helped prevent an increase in U.S. military aid to Guatemala.

U.S.-Guatemalan relations have also been hurt by U.S. support for democratic processes, elections, and human rights in Central America. In the early 1980s, Guatemala had two coups; its 1982 presidential election was widely considered fraudulent. U.S. Assistant Secretary of State for Inter-American Affairs Langhorne Motley has described U.S. frustrations, especially with President Fernando Romeo Lucas García (in office until March 1982): "Efforts by both this Administration and the previous one to engage Guatemala in a dialogue about human rights concerns were unsuccessful." Speaking in 1984, Motley noted: "Serious problems remain, especially human rights abuses." Although he pointed out to Congress that such abuses were declining, the Administration itself has been reluctant to give Guatemala much help. It resumed nonlethal military aid (e.g., jeeps, no guns). It asked Congress for more military aid but Congress still refused, except for authorizing some funds for military training for FY 1985. The 1984 Constituent Assembly elections, however, which were won by moderate center and center-right parties, elicited a positive Administration response that might lead eventually to more U.S. aid.

Honduras: Honduras has been much affected by the regionalization of U.S. policies. Joint U.S.-Honduran military maneuvers of increasing frequency and duration were held in the early 1980s; since about July 1983 they have been continuous: when one war game ends, the next one begins. The United States has built so-called temporary facilities for these maneuvers. The goals are to bolster the Honduran armed forces; deter a Nicaraguan attack on Honduras; complement the pressure on Nicaragua from the Honduras-based U.S.-supported contras; and make Honduras a less likely base for Salvadoran insurgents. The United States established a Regional Military Training Center in Honduras in June 1983 to train Salvadoran soldiers. At Honduras' request, this training was suspended in September 1984 pending the resolution of Honduran-Salvadoran disputes lingering from the

1969 war and the formulation of a U.S. aid package more favorable to Honduras.

The joint military maneuvers are funded by the Defense Department's general budget, without requiring the prior authorization of Congress. U.S. support for the contras, however, comes out of the CIA budget and requires congressional approval. These sums are large but difficult to estimate. The visible portion of U.S. aid to Honduras has grown. In FY 1978 and FY 1979, combined U.S. economic and military aid averaged about $20 million per year. In FY 1984, the United States disbursed $169 million for economic aid and $79 million for military assistance. The Reagan Administration has requested $143 million in economic aid and $88 million in military aid for FY 1986.

These programs grew at first thanks to the support of the Honduran armed forces' commander in chief, General Gustavo Adolfo Alvarez Martínez. He was forced to resign and was replaced in early 1984 by General Walter López Reyes, a hero of the Honduran-El Salvador war of 1969. Worried over the training of the historical enemy, the Salvadoran army, on Honduran soil, General López terminated the training and requested more U.S. military support for Honduras. One unresolved issue is whether maneuvers so close to the Honduran-Nicaraguan border should be continued, risking an escalation of clashes, as occurred in 1983 and 1984.

Panama and Costa Rica: The appointment of four-star General Paul Gorman as commander in chief of the U.S. Southern Command (based in Panama) in 1983 brought to Central America a first-class strategist with extensive service in the United States and Europe. His strategy was to prepare the United States for a regional war in Central America and thereby deter its likelihood. Some of his policies were highly controversial. The suggested deployment of U.S. military engineers in northern Costa Rica—for the purpose of completing Nicaragua's military encirclement—threatens to unravel Costa Rica's demilitarization policies that have long helped its stability. Some also feel that the deployment of U.S. forces from the Southern Command to

maneuvers in Honduras is contrary to the intent of the Panama Canal treaties and compromises Panama's role as a mediator in the Contadora process. To underline its independence, Panama insisted on the closing in October 1984 of the U.S.-run School of the Americas that had trained Latin American military officers for decades. (The school has reopened in Fort Benning, Georgia.) General Gorman retired in April 1985. General John Galvin, who had also previously served in the United States and Europe, has been appointed to replace him. The most important and successful Reagan Administration initiative has been support for Costa Rica's economic development and democratic institutions.

Grenada: U.S. policy has been affected by and has itself affected U.S. relations with the Caribbean. Early in 1981, Secretary of State Haig considered "going to the source" to solve El Salvador's problems, by which he meant confronting Cuba to end its support for Central American revolutions.

In October 1983, the United States and six English-speaking Caribbean countries invaded Grenada, where U.S. forces for the first time fought Cubans. Grenada's revolutionary government was overthrown and an interim Grenadan administration was established. The invading countries kept a force in Grenada, including over 200 U.S. troops. Elections were held in December 1984.

The credibility of U.S. threats aimed at Cuba and Nicaragua has increased. Would the United States repeat the invasion to overthrow the Sandinista government? Or would it use this threat to edge the Sandinistas toward negotiations?

The United States and the Contadora Negotiations: The Reagan Administration was at first cool toward the Contadora negotiating process. Nonetheless, by early 1984 U.S. officials gave it verbal support. Nevertheless, the United States continued actions inconsistent with the Contadora process (military maneuvers, the establishment of de facto military bases and support for the contras) and U.S. government statements focused only on those Contadora proposals requiring Nicaraguan restraint, not on those requiring restraint by the United States and its allies.

In the fall of 1984, the Contadora process led to a draft treaty accepted at first by all Central American countries, including Nicaragua. The Reagan Administration opposed the treaty on the grounds that it was unclear how its terms would be verified and that there were insufficient guarantees of internal democracy for Nicaragua. Thereupon Costa Rica, Honduras and El Salvador indicated their disapproval of the treaty, and negotiations resumed. The Reagan Administration appeared unwilling to accept the restrictions such a treaty would impose on U.S. policy in Central America, and it did not wish to support a treaty that might consolidate the power of all current Central American governments—because that included Sandinista Nicaragua. The Contadora process still goes on.

The U.S. Policy Process

The process of arriving at a Central American policy has been complex. U.S. policy must be addressed not only to the six countries in Central America but to other interested Western Hemisphere countries, industrial democracies, Cuba and the Soviet Union. Many bureaucracies have participated in the process. Much U.S. policy is carried out by the Defense Department, requiring attention from the Pentagon, from the U.S. Southern Command (with authority over land forces only), and from the U.S. Atlantic fleet responsible for the Caribbean and Gulf of Mexico waters. The CIA has supported the Nicaraguan contras, and it gathers information and supports other allies in the region. The President has relied on ideological guidance from his first-term ambassador to the United Nations, Jeane Kirkpatrick. The National Security Council staff and that part of the White House staff concerned with the President's domestic politics are also engaged. U.S. economic programs involve the Agency for International Development, the Departments of Commerce and Agriculture, the Office of the Special Trade Representative, and various lesser agencies. U.S. embassies in Central America have become more important, and the Department of State has dealt with complex diplomatic events.

Central America has agitated U.S. domestic politics. It played a

role in the 1982 congressional elections and it was an issue raised by the Democrats in their 1984 challenge to President Reagan. The U.S. public has retained little information about Central America despite the large amount of media attention. Most U.S. citizens do not know, for example, that the U.S. government supports the government of El Salvador against attempts to overthrow it and also supports those trying to overthrow Nicaragua's government. Moreover, the public's voting choices are not much affected by Central America. A large *New York Times*/CBS poll on presidential election day 1984 showed that only 2 percent of Reagan voters and 6 percent of Mondale voters identified "policy toward Central America" as a major voting issue.

Nevertheless, when individuals are pressed for their views, it appears that U.S. opinion is opposed to committing U.S. troops to Central America's wars, although the U.S. public (after the fact) supported the U.S. and Caribbean invasion of Grenada. The public has never strongly supported foreign aid, but a substantial minority supports such aid to Central America, rising to a large majority of the so-called elite public which hopes aid will make the use of U.S. troops less likely. The public is hostile to Cuba and the Soviet Union and to any role for them in Central America; there is also little sympathy left for the Sandinista government. Democrats in Congress have reflected the public's criticism of Reagan Administration policies.

Voting in Congress on Central America tends to have a partisan cast, with Republicans supporting and Democrats opposing Administration policies. A bipartisan U.S. policy toward Central America has been emerging, however, although it is often obscured by polemics. It has been promoted successfully by the Reagan Administration. Bipartisanship is supported by moderate Democrats such as House Majority Leader Jim Wright of Texas and moderate Republicans such as former Senate Foreign Relations Committee Chairman Charles H. Percy of Illinois. They and their colleagues imposed some human rights criteria on U.S. aid to El Salvador; prevented U.S. lethal military aid to Guatemala; helped to stop the mining of Nicaragua's

harbors; restrained the Administration's increased military engagement; and trimmed requests for military and economic assistance. But they also ensured that most requests for economic and military aid to Central American countries other than Nicaragua were approved; that the CBI was passed; that support for the democratic process, be it in Costa Rica or in El Salvador, remains strong; and that negotiations are pursued.

Moderates alone do not make bipartisan majorities. Policies on human rights, economic aid, and the CBI required the backing of House Speaker Thomas P. O'Neill Jr. (D-Mass.), Dante B. Fascell (D-Fla.), the House's veteran expert on Latin America, and Michael D. Barnes (D-Md.), the chairman of the House Subcommittee on Western Hemisphere Affairs. Similarly, support for U.S. military aid required the backing of conservatives, led often by Senator Jesse A. Helms (R-N.C.), chairman of the Senate Subcommittee on Western Hemisphere Affairs. Congressional debate has not been tidy but the outcome has been increasingly consistent. The most serious dispute left by spring 1985 was whether to continue to support the contras, which the House blocked by bipartisan majorities.

The bipartisan outcome was helped by a split in the executive branch that the Administration occasionally portrayed as a conscious strategy. Some in the executive seemed to prefer an all-out effort to overthrow the Sandinistas and to suppress revolutions in El Salvador and Guatemala. Others in the executive, while sympathetic to those goals, believed that those policies were too costly in lives and money; they pressed for negotiations while keeping up the military pressure. These contending trends are at times called the U.S. two-track policy. This was exemplified in mid-1984 when Secretary of State George P. Shultz visited Managua to reopen negotiations with the Sandinistas and, simultaneously, the President asked Congress to continue CIA funding for the contras seeking to overthrow the Sandinista government.

U.S. Interests

General U.S. interests in Central America resemble those of most non-Central Americans: they are modest indeed, except for

the lasting importance of the Panama Canal. And yet many other U.S. interests are often cited to explain U.S. government policies. It is in this more subjective arena that disputes arise about Central America's significance.

The Bipartisan Commission on Central America, in defining U.S. interests, referred to the need to secure U.S. "land borders," although Central America does not border on the United States, and to defend the Panama Canal, though not saying how a threat might emerge. It referred to threats to sea-lanes and to the resupply of Europe in case of war in the "Caribbean-Central American zone." President Reagan also told a Joint Session of Congress in April 1983 that two thirds of all U.S. foreign trade and petroleum pass through the Panama Canal and the Caribbean; in a European crisis half of U.S. supplies for the North Atlantic Treaty Organization (NATO) would go through these areas by sea; and El Salvador is closer to Texas than Texas is to Massachusetts. Neither the President nor the commission indicated that very little of that trade or those supplies pass through Central America north of Panama; the main petroleum sources are in Mexico and in Venezuela, not in Central America; the choke points of the sea-lanes are in Panama and between Caribbean islands, not in northern Central America; no regime in Panama would want to close the Canal for long; and the Canal is indefensible in the event of nuclear war. Neither the President nor the commission has claimed a U.S. economic interest in Central America.

From the President's and the commission's statements, however, several plausible though subjective U.S. interests in Central America can be identified.

- **The threat from nuclear weapons:** Hostile forces based in Central America could pose a security threat to the United States and its allies if several improbable but not impossible circumstances were to occur. Assume that the Soviet Union considers its understandings with the United States of 1962, 1970 and 1979 over the Soviet military use of Cuba to apply to Cuba but not to Nicaragua. Assume that U.S.-Nicaraguan relations deteriorate further and that Soviet nuclear weapons are deployed in Nicara-

gua. In practice, that would nullify the restraints imposed on the Soviet Union with regard to Cuba. It would lengthen the time at sea of Soviet diesel-powered submarines and improve the chance of success of a Soviet first strike in nuclear war by shortening the warning time to U.S. forces of a Soviet attack. The United States and its allies must ensure that the Soviet Union understands that it must abide in Central America by norms no less stringent than those that apply to the Soviet-Cuban military relationship.

- **The threat of conventional war:** There could also be a conventional war threat to the United States. Assume no deployment of Soviet nuclear weapons in Nicaragua but a further deterioration of U.S.-Nicaraguan relations. Assume that the Soviet Union does not consider that the 1979 understanding with the United States concerning Soviet conventional war capabilities in Cuba applies to Nicaragua; Cuba does not feel constrained because it has no military agreements with the United States. Assume that the U.S.S.R. deploys naval forces and that it and Cuba deploy air forces in Nicaragua. Assume that a general war breaks out in Europe and that it remains nonnuclear. Then there would be a very serious threat to the United States and its allies; conventional forces operating from Central America could prevent the U.S. resupply of allied forces in Europe. The incentives to the United States to "go nuclear" would increase.

A variant on a conventional war threat assumes that a Marxist-Leninist regime comes to power in Panama (especially after the year 2000) and, promised Soviet economic subsidies, closes the Canal during a general, conventional war.

The United States would attack swiftly any Caribbean basin country collaborating with the Soviet Union in a general conventional war. U.S. forces in the Western Hemisphere would readily overwhelm the forces, other than nuclear-powered submarines, of the Soviet Union and its allies. However, the United States would suffer heavy losses; the resources and time lost in defeating enemies in the Western Hemisphere would take away from the reinforcement of U.S. and allied forces elsewhere. The likelihood that all necessary assumptions would coincide is very small, but it is in the interest of the United States and its allies to make this

scenario even less probable either by diplomatic means alone or by the use of military means as well. In either case, current U.S. policies would have to change in order to encourage negotiations.

- **The threat to and from Mexico:** No public U.S. government document refers to a threat of subversion of Mexico from Central America, but, as the Bipartisan Commission puts it, there could be a "series of developments which might require us to devote large resources to defend the southern approaches to the United States, thus reducing our capacity to defend our interests elsewhere." That "domino effect" writ large would threaten U.S. southern "land borders." Southern Mexico, especially Chiapas state, might be affected by a revolution in Guatemala, but the disruption could be contained there. However, it is unlikely that if the Soviet Union or Cuba wished to subvert Mexico they would subvert Central America first, picking up war-ravaged, bankrupt countries. Nor is there a clear link between the internal processes of Mexico and Central American countries, given their quite different histories. The main consequence of this U.S. policy concern is to assist Mexico's development.
- **U.S. credibility:** "Our credibility worldwide is engaged," argues the Bipartisan Commission. "The triumph of hostile forces in what the Soviets call the 'strategic rear' of the United States would be read as a sign of U.S. impotence." Central America may matter, not for itself, but for worldwide psychopolitics. However, many U.S. allies worry about a second type of U.S. credibility: that the United States might be recklessly engaged in a region where its own and allied interests are either meager or sufficiently safeguarded.
- **Promoting democracy and development:** President Reagan and the Bipartisan Commission have noted some interests that the United States chooses to have but that are discretionary: the improvement of living conditions, the protection of human rights, the promotion of democracy, and the preservation of the "moral authority" of the United States, in the commission's phrasing.
- **Subversion in Central America:** There is concern that Nicaragua, Cuba, and the Soviet Union may foment the overthrow of other governments. In an earlier chapter it was noted that the

origins of Central American revolutions are complex; they cannot be attributed simply to external factors. Nevertheless, external actors—Cuba, Costa Rica, Panama, Venezuela and, in the end, most countries, including the United States—contributed to Somoza's overthrow in Nicaragua. Nicaragua and Cuba have also helped Salvadoran revolutionaries, especially in 1980 and early 1981. The United States is properly concerned with these issues under the charters of the UN and the OAS as well as under its bilateral treaty obligations. The U.S. "moral authority" is undermined, however, by the U.S. government's support for those who seek to overthrow Nicaragua's current government and by such U.S. government-supported actions as the mining of Nicaragua's harbors in 1984 and the advice of CIA operatives to anti-Sandinista forces to engage in selective assassination of Nicaraguan government officials.

● **Updating the Monroe Doctrine:** "Let us show the world that we want no hostile, Communist colonies here in the Americas: South, Central, or North," President Reagan said in his address of May 9, 1984. Even if the United States might coexist peacefully with Communist regimes elsewhere, that may be unacceptable in this hemisphere. The President said that "The Sandinistas who rule Nicaragua are Communists" closely linked to Cuba and the Soviet bloc; the guerrillas in El Salvador are also "Communist." The President evidently thinks that all these Communists are hostile. The Bipartisan Commission argued that "indigenous revolutions are not incompatible with international harmony in the Americas," but it described Central America's existing revolutions as nonindigenous: "They depend on external support." Thus the U.S. government opposes the current Nicaraguan government and all revolutions in Central America because they are all defined as Communist and hostile.

The United States has dealt successfully with some Communist regimes, presumably because they are not all equally hostile. A few days before delivering this speech, President Reagan had returned from the People's Republic of China, whose government he had denounced in years past. The key question appears to be what a Sandinista regime would need to do to prove it was not

hostile and therefore acceptable. U.S. policy toward Nicaragua still shows some ambivalence.

U.S. Policy Options

By early 1985, Central America had become even less important objectively for the United States but ever more important politically and psychologically. Many U.S. policies had succeeded although few U.S. goals had been fully met. There were no Soviet bases in Central America but there was increased Soviet military support for Nicaragua. There was no conventional war threat to the United States, but there were many Cuban military advisers and reservists supporting Central America's largest armed force in Nicaragua. No dominoes had fallen, but the Salvadoran insurgency had gained strength throughout the early 1980s: revolutionaries took more and bigger towns and more territory and held them longer. However, El Salvador's army has seemed more effective since late 1984. Progress toward democracy was made in Honduras and El Salvador and, to some extent, in Guatemala. At best modest advances have been made to protect human rights in El Salvador and in Guatemala, although the trend is in the desired direction. The elections in Nicaragua in November 1984 strengthened Sandinista rule, despite Reagan Administration criticisms.

U.S. policies no longer face major opposition from Western Europe, although these countries do little (apart from West German aid) to support them. There is concern about U.S. credibility and the possibility the United States might engage in a reckless war in Central America. U.S. "moral authority" has been weakened by support for the contras, but Nicaraguan "moral authority" is also in doubt in the non-Communist world. Nicaragua may not be, in Reagan's words, a "hostile, Communist colony," but it has become more hostile toward its neighbors and the United States and closer in its internal organization and in its international relations to Communist countries, in part responding to Reagan policies but also because of choices made by the Sandinista leaders. The Contadora process has not produced peace, nor have U.S. military actions resolved the conflict.

Within the United States, bipartisan support has been achieved for many U.S. policies toward Central America. Congress has approved most requests to increase U.S. military and economic assistance to El Salvador, Honduras, Costa Rica and Panama. There has been much support as well for measures that promote democracy and human rights in Central American countries, and trade and investment relations between them and the United States. President and Congress still disagree, however, with regard to the extent, nature, and conditions of U.S. aid to Guatemala. But the greatest discord concerns U.S. policy toward Nicaragua. Although there is increasing agreement that the Sandinista regime does not merit U.S. support, there is a sharp disagreement on what U.S. policy should be.

There are still many choices for U.S. policy toward Central America, but none are easy. Following are three scenarios. They include the two most different but still realistic options: an invasion of Nicaragua, and a Contadora-like negotiated settlement. These are not the only imaginable strategies. The United States could support revolutionary regimes in Central America but, because there is very little support in the United States for this view, it seems utterly unrealistic. Alternatively, the United States could abandon Central America to its fate, not opposing any outcome, not even Marxist-Leninist victories in several countries. This is also not a realistic option. Some might consider a U.S. invasion of Nicaragua unrealistic. In Washington's climate in the aftermath of the Grenada invasion, it is realistic. Moreover, the Sandinista government believes it is a possibility. There is also presented a third option consistent with recent U.S. policies.

▶First Option: At the request of a majority of Nicaragua's neighbors through the Central American Defense Council (CONDECA), the United States, along with forces from participating Central American countries, invades Nicaragua.

This decision would serve several U.S. interests. It would end a regime that the U.S. government considers unacceptable. It would be portrayed as a defeat for the Soviet Union and Cuba, denying both the possibility of having bases on the American mainland for nuclear, conventional, or subversive warfare. It would make more

difficult the support of insurgencies in El Salvador and Guatemala. It would show the strength and resolve of the United States, enhancing its credibility as a major power. It would permit complementary political and economic development strategies in all Central American countries in alliance with the United States.

Such a decision has costs. Invading Nicaragua would probably require committing some 200,000 U.S. troops from all services, including battle groups from the Atlantic and Pacific fleets and over 200 fighter planes, against Central America's largest armed force and several thousand battle-ready Cuban military reservists. U.S. casualties could include a few thousand dead and over 10,000 wounded. Central American forces would suffer proportionate casualties. A not insubstantial number of Sandinista forces are likely to revert to guerrilla warfare, with considerable internal support. Several thousand U.S. troops would need to occupy Nicaragua indefinitely.

Soviet and Cuban reaction is difficult to gauge. Depending on the time required to seize Nicaragua's cities and on the intensity of guerrilla resistance, conflicts could break out in the United States between President and Congress over the War Powers Act; there might be riots in some cities in the United States and Western Europe. Most governments throughout the world—outside of Central America and the Caribbean—would be likely to condemn the invasion or lend no support.

Some of the expected gains are doubtful. Invading Nicaragua is not likely to end insurgencies in El Salvador or Guatemala because it would not address the internal causes of these wars. Although it would make external resupply of these insurgencies more difficult, it would not impede it altogether. The invasion would be as likely to strain U.S.-European alliances, giving support to the charge of recklessness. It might make U.S.-Mexican relations even more difficult than they have been. It would add to U.S.-Soviet tensions. The invasion would not guarantee democracy in Nicaragua: a dictatorship would be just as likely.

▶Second Option: The United States government follows a two-

track policy: keeping open the option of a negotiated settlement but continuing support for groups that seek to overthrow Nicaragua's government, military maneuvers in Honduras and in the Caribbean, and economic and military aid to Nicaragua's neighbors.

This option would serve several U.S. interests. It would continue to put pressure on Nicaragua to make concessions about its internal policies and its relations with its neighbors—in part for fear of an invasion and in part to promote a negotiated settlement. Under this option, the United States would continue to support its allies in the region, including the anti-Sandinista forces, signaling the reliability of U.S. commitments and making it less likely that an angry contra force might retaliate against the governments of Honduras or Costa Rica. The implementation of this option does not foreclose either a more conciliatory or a more punitive option at a later time. It entails few military costs for the United States because no U.S. troops would go to war.

Such a decision has its costs. It would keep countries from which contra forces have operated—Honduras, above all, but also Costa Rica—in continued turmoil. Their governments would risk minor retaliatory attacks from Nicaragua, and possibly rowdy behavior from frustrated contra fighters. The policy is economically costly because the United States would have to continue giving much military and economic aid to its allies in the region. Neither stability nor democracy nor prosperity is assured in Central America under this policy.

Some of the expected gains are doubtful. This option does not settle any substantial question with regard to U.S.- Nicaraguan relations. The Sandinista regime might consolidate its power, as time passes, without making any pledges to prohibit Soviet or Cuban bases in Nicaragua or to withhold support for revolutionaries seeking to overthrow the governments of its neighbors. The Sandinista regime may harden ideologically. This policy might make it even costlier later to invade Nicaragua to overthrow its government; it might also persuade the Nicaraguan government that it can achieve its aims without further negotiations with its neighbors or with the United States.

▶Third Option: Contadora governments announce agreements between interested parties to bring peace to Central America. All Central American countries pledge to stop supporting each other's overthrow and to adopt arms-control and arms-reduction measures under verifiable inspection procedures. Pertinent non-regional actors pledge their support.

This decision would serve several U.S. interests. It would extend to Central America prohibitions against Soviet or Cuban nuclear or conventional bases. It would curtail the external resupply of insurgents in El Salvador and Guatemala from Nicaragua, Cuba, the Soviet Union and their allies. It would permit continued U.S. economic support for its friends in Central America but it would greatly reduce the cost of financing war efforts by U.S. allies. It would set international norms in Central America consistent with UN and OAS principles. It would be supported by most U.S. allies in Western Europe, Canada and Latin America, especially improving U.S. relations with Contadora countries. It would help negotiations with the Soviet Union and Cuba over other issues. It would not lead to thousands of dead and wounded in the United States, Nicaragua or elsewhere in Central America.

Such a decision also has costs. It would consolidate a Nicaraguan regime still different from, perhaps incompatible ideologically with, the United States and the rest of Central America. It would make coordinated development strategies in Central America very difficult. It would accept an alliance between Nicaragua, Cuba and the Soviet Union, though limiting the latter's military behavior. It would stop U.S. support for anti-Sandinista forces, risking that they might seek revenge against the United States and Honduras.

Some expected gains are doubtful. The insurgencies in El Salvador and Guatemala would not end unless other steps, military or political, were taken. The agreements might be broken; if broken by a stronger Nicaragua—as revolutionary Cuba became stronger in time—it might then be more difficult to contain subversive warfare. To ensure against that, the United States would need to commit many resources to strengthen U.S.

friends in the region. Even if the agreements were respected, U.S. economic aid costs would remain high. West European support for U.S. policy toward Central America matters little; nor would a Central America settlement have much impact on NATO issues. The abilities of Latin American countries to make the agreements work are untested.

The prospects for stability, security, freedom, democracy, justice and prosperity in Central America remain uncertain.

Talking It Over

A Note for Students and Discussion Groups

This issue of the HEADLINE SERIES, like its predecessors, is published for every serious reader, specialized or not, who takes an interest in the subject. Many of our readers will be in classrooms, seminars or community discussion groups. Particularly with them in mind, we present below some discussion questions—suggested as a starting point only—and references for further reading.

Discussion Questions

The authors maintain that the world matters greatly for Central America but Central America (except for the Panama Canal) matters little for the world. Is this a fair statement, in your opinion?

For centuries European nations and the United States clashed with each other and with local populations over control of Central America. What objectives were they pursuing? Are those objectives still valid?

Central American economies are sensitive to changes in the world economy. What impact has the recent world recession had on Central America? What effect, if any, has it had on El Salvador and Nicaragua?

What forces that have contributed to the violence and political polarization in Nicaragua and El Salvador since 1978 can be traced to earlier periods in the region's history? What are some of the other contributing factors?

Looking ahead five years, the authors sketch scenarios for the region. The three key issues, they believe, will be the choice of economic strategy, the distribution of goods and services and the question of who will participate in the decisionmaking process. Explain the significance of each of the three issues.

Does Central America matter for the United States? If so, in what ways? What policies has the United States pursued toward Central America? What policies should it follow in the future?

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Lindenberg, Marc, and Crosby, Benjamin, *Managing Development: The Political Dimension*. New Brunswick, N.J., Transaction Books, 1981. Focuses on techniques of applied political analysis in developing-country settings.

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Schulz, Donald E., and Graham, Douglas H., eds., *Revolution and Counterrevolution in Central America and the Caribbean*. Boulder, Colo., Westview Press, 1984. Wide-ranging book with chapters on each Central American country and on pertinent political, economic, and social topics.

Woodward, Ralph Lee, Jr., *Central America: A Nation Divided*, 2nd ed. New York, Oxford University Press, 1985. A general overview of Central American history up to the crises of the past decade.

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Mark Callahan, Business Manager

MARK CALLAHAN
Business Manager

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'There are many choices for U.S. policy toward Central America, but none are easy. The two most realistic options are an invasion of Nicaragua or a Contadora-like negotiated settlement. There is a third option consistent with recent U.S. policies—a pledge by Central American countries to stop supporting each other's overthrow and to adopt verifiable arms-control measures.'